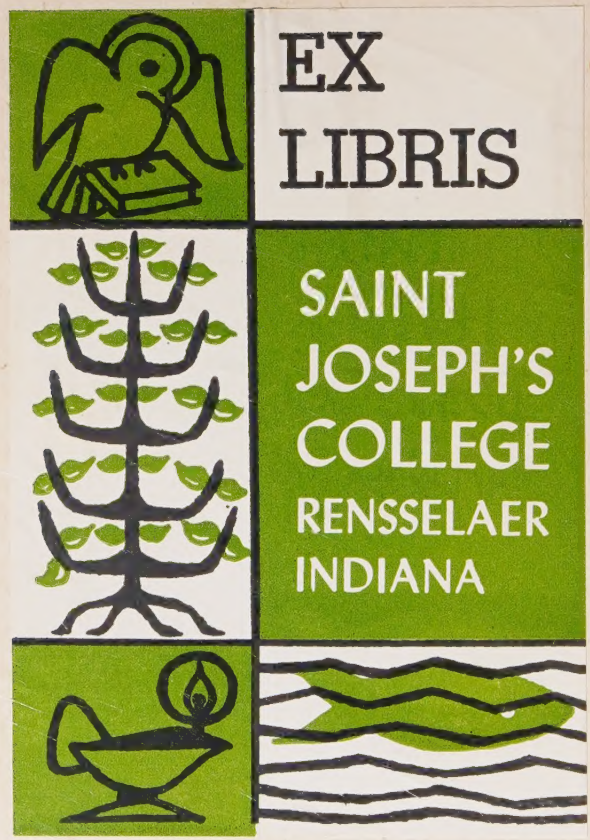
OPERATIVE OWNERSHIP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Operative Ownership

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A SYSTEM OF INDUSTRIAL PRODUCTION BASED UPON SOCIAL JUSTICE AND THE RIGHTS OF PRIVATE PROPERTY.

DESIGNED TO ENFORCE A JUST DIVISION BETWEEN CAPITAL AND LABOR OF THE WEALTH WHICH THEY JOINTLY PRODUCE, ENABLING INDUSTRIAL TOOL-USERS TO BECOME, IN WHOLE OR IN PART, TOOL-OWNERS, THEREBY EFFECTING A MORE GENERAL DIFFUSION OF WEALTH AMONG THE PEOPLE, INSPIRING A MORE GENERAL REGARD FOR THE RIGHTS OF PRIVATE PROPERTY, AND, BY A REAL UNION OF CAPITAL AND LABOR, PROVIDING A SAFEGUARD TO PRIVATE INDUSTRY AGAINST EXCESSIVE GOVERNMENTAL REGULATION.

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BY

JAMES J. FINN

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"The form of association which, if mankind continues to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief and work people without a voice in the management, but the association of laborers themselves, on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves."

JOHN STUART MILL.

"Ultimately we desire to use the government to aid as far as can safely be done, the industrial tool users to become, in part, tool owners."

THEODORE ROOSEVELT.

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PREFACE.

In the following chapters I have attempted to show the need of some system of industrial production whereby the strife and unrest which characterize industrial relations today may be avoided, the industrial freedom of the laboring classes achieved, and the rights of property restored and secured, which of late years, have been growing progressively insecure as the result of the increasing hostility of the numerically predominant propertyless element of the laboring classes, also to outline and, in a tentative way, to work out, such a system, as well as to suggest a plan whereby the general adoption of the system may be brought about.

The system proposed is to be achieved through three successive stages of development, as follows: first, joint operation of industrial establishments, with joint par-

ticipation in profits, by capitalists and operatives; second, joint ownership gradually superadded to joint operation; and, finally, complete ownership by the operatives collectively, in each establishment, of the capital, in the forms of machinery, materials, etc., with which they carry on their operations.

I make no pretense to the discovery of any new principle of the science of economics. The system which I have advocated, as well as the plan suggested for bringing it about, involves merely the application of old principles to new conditions. The principle of the ownership of the tools of industry by the individual tool-user is older than civilization; and the system of collective ownership advocated in this book is merely an adaptation of that principle to modern industrial conditions. A system of industrial production embodying the principle of collective ownership by the workers was predicted by John Stuart Mill sixty years ago, as the form of industrial association which must ultimately predominate. That principle has been advocated by many leading economists and publicists of the present day, and is in practical operation today in numerous establishments in Europe and America.

So it is also in regard to the plan proposed for the general introduction of the system of collective operative ownership. Its leading features—eminent domain, the use of government credit, joint operation, and joint ownership of industry by capitalists and operatives—have been applied before in a variety of ways. What I have done in the following chapters is merely to assemble ideas and principles evolved in the course of the social and industrial development of society, and to arrange them in harmonious relation, in the plan above mentioned.

Arrangements between capital and labor, for participation in profits and for joint ownership, have heretofore been made only as acts of grace by benevolently disposed capitalists, and in exceptional cases; and it is the purpose of the scheme proposed in this book to provide a way by which the like benefits may hereafter be secured to operatives of industrial establishments generally, as matters of social justice and legal right, but without violating in the slightest degree the personal or property rights of the capitalist.

While the question of the rights of private property and private industry enter into the discussion of the subject of Oper-

ative Ownership as incidental to the main purpose of the book as above outlined, they are nevertheless scarcely less important, regard being had to the interests of society at large, than are the rights of labor. Indeed the rights of labor, in the sense contended for in this book, would be of comparatively little value if the industries in which labor applies itself to the production of wealth were to be continually subjected to the nagging and annoying interference of governmental regulative agencies or commissions at every turn; or if the wealth which labor produced, into whosesoever hands it might lawfully pass, were liable to be taken, or its value impaired or destroyed, by the arbitrary and unreasonable exercise of the taxing or the police power of the State.

The system described in the following pages is the more beneficial, therefore, because not only does it secure to the laborer, even in its earliest stage, a just share of the wealth which he produces, but by the direct and substantial interest which it will give him in the use of the capital invested, and, in the later stages of the system, by the ownership, in whole or in part, of that capital, it will make it to the interest of the laboring class to so exert its influence

through the ballot as to protect the rights of private property and private industry against encroachments upon those rights by the government, by which means they now are often seriously impaired, while other and more serious encroachments are threatened.

I am profoundly conscious that the present volume, in its treatment of the subjects with which it deals, is full of imperfections; and many relevant questions in relation to the scheme proposed will occur to the reader to which no answer will be found in this book. In extenuation of its short-comings in this regard, it must be borne in mind that the book is not submitted as a complete elaboration of a fully developed system, but rather as presenting in a tentative way a system which in many important features must be developed, not by a single mind, but by many, through the free expression and interchange of ideas, and in some respects also by experience. Intending to take part in the further development of the system, I shall welcome an interchange of views in regard to it with any person who may be interested in the subject and qualified by education or experience to participate in such development.

September, 1916.

CONTENTS

Chapter I

THE CLASS STRUGGLE

	Page
The Social Unrest	7
Wage-Capitalism	11
The Rise of Wage-Capitalism in England	13
Wage-Capitalism in America	17
Scantiness of Wages	20
A Decent Living Wage	22
Elements of a Living Wage	25
False Philanthropy	28
Extreme Poverty of the Working Classes	30
Appalling Infant Mortality	33
Uncertainty of Employment	34
The Workers Organize	36
Strikes and their Cost	39
Exorbitant Toll of Capitalism	42
A Remedy or Socialism	44

Chapter II

PROPOSED REMEDIES FOR INDUSTRIAL ILLS

	Page
Socialism—Co-operation—Trade Unionism	46
Socialism	47
Socialism and Individualism	49
Present Aim of Socialism	52
Trend Towards Socialism	54
The Government in Business	57
Is Socialism Declining?	62
Socialism a Real Menace	64
Co-operation	66
Profit Sharing and Labor Co-partnership	68
The Maison Leclaire	70
The Familistere Society of Guise	73
Slow Progress of Co-operation	77
What Co-operation Lacks	78
Trade Unionism	80
Trade Agreements	82
The True Goal of Trade Unionism	85

CONTENTS

Chapter III

OPERATIVE OWNERSHIP

	Page
The Term Defined	91
Fundamental Error of the Capitalist Theory	94
Mutual Needs of Capital and Labor	97
Strife Between Capital and Labor	99
How Class Warfare May Be Ended	101
Pre-Capitalist Industries	104
Adaptation of the Principle of Workers' Ownership of Tools to Modern Conditions	107
Distinguished Advocates of the Principle	109
Obstacles to its Adoption	110
Government Aid	114
Manner of Its Use	115
Transition from Capitalism to Operative Ownership	118
Joint Ownership Distinguished from Profit-sharing	123

Chapter IV

WAYS AND MEANS

	Page
Rights of Property Sacred	129
Views of Society Changing	131
Obstacles to Operative Ownership	132
Example of Benevolent Capitalists	133
Eminent Domain	137
Eminent Domain an Option of Purchase	139
Eminent Domain and Government Credit	141
Examples of Government Aid	146
Ireland Before the Land Purchase Acts and After	148
Land Capitalism and Industrial Capitalism	150
Government Aid in the United States	151
Example of Indemnity to Government in Guaranty of Bank Deposits	155
Safety Through Indemnity Fund	157
Little Risk and Great Benefits	160
Consider the Workingman	161
Government Credit to be Seldom Used	164
An Equitable Basis of Division	167
Introducing the System	175
Conserving the Public Interests	177
A Joint Operative Board	179
Operatives as Joint Owners	181
Operatives as Sole Owners	182
Legislation not Indispensable	183

CONTENTS

Chapter V.

BENEFITS OF OPERATIVE OWNERSHIP

	Page
All Classes of Society Benefited	186
Benefits to the Employer	187
A Safeguard Against Governmental Interference	189
Benefits to Operatives	194
Great Increase of Labor Efficiency	195
Increased Efficiency Under Profit-Sharing	198
Fallacious Notions About Increase of Output	200
Most for Least and Least for Most	201
Scientific Management	202
Cheapening of Products	205
Unemployment Problem Solved	208
Benefits to the State	210
Benefits to Society	213

Chapter VI

DISAPPEARING RIGHTS OF PROPERTY

	Page
Conservative Tendency of Operative Ownership	218
The Rights of Private Property	220
Governmental Greed of Power	222
Forms of Governmental Encroachment on Rights of Private Property	225
Taxation	226
Income Taxes	230
Inheritance Taxes	232
Progressive Taxation	234
Government Regulation of Industry	238
Federal Regulation	239
Enlargement of Governmental Powers by Judicial Construction	241
The Sherman Anti-Trust Act	242
Venerable Traditions Violated	245
Regulation Running Riot	246

Chapter VII

DISAPPEARING RIGHTS OF PROPERTY—(Continued)

	Page
The Police Power	248
Menace of the Police Power	249

ployed out of work. But at the core of every answer will be found some feature or some idea which associates the trouble unerringly with the institution of capitalism.

The careful observer of, or the serious inquirer into, the prevailing industrial conditions, whatever his interest or his environment may be, cannot fail to perceive a causative relation between capitalism and the various social phenomena the sum of which is expressed in the term "social unrest." To such persons the conclusion will be irresistible that if the prevailing condition of social unrest is to be remedied; if the social and political catastrophe which very many well informed, thoughtful and conservative persons can discern as the evident climax of this unrest, is to be averted, it must be done by either a radical reformation, or the total abolition, of capitalism in at least one of its most familiar phases.

In order to arrive at a proper understanding of the conditions before mentioned, of the imperative need of a remedy for those conditions, and of the merits of the remedy, which it is my intention to suggest, and to some extent, elaborate, in this volume, a brief survey of that phase of capitalism which has to do with the

employment of labor for wages, of its rise and development, of its effects upon society in general, and upon the laboring classes in particular, would seem to be indispensable.

WAGE-CAPITALISM.

In the broadest and most widely recognized sense of the term, *capitalism* stands for all the activities, social and political, of capitalists, whereby accumulated or concentrated wealth is employed for the production of new wealth, or by which the productiveness of capital is increased. In a narrower sense, and that in which the term is very generally used by advocates of the cause of labor in what is often called "the class struggle," it means the economic system whereby capital, in the form of land, machinery, raw materials or money, is owned, but not used, by one class of persons called capitalists, and used, but not owned, by another class, called workers, operatives, or some other name of like import, who use it in the production of new wealth; receiving for their labor a fixed or ascertainable wage, without any voice in the management of the establishment in which they are employed, nor any share in the wealth which they produce, beyond

the agreed remuneration, which remuneration is fixed without any definite relation to the value of the product of such labor, and which product becomes the sole property of the capitalist.

It is with capitalism in this latter sense, which in reality is but one phase of that institution, that we shall be chiefly, though not exclusively, concerned in the following chapters; and to distinguish this sense of the term, the leading characteristic of which is the labor-wage feature, from the broader sense of the term as above defined, as well as from the wage system in general (of which system also the relations between capital and labor above mentioned present but a single phase), I shall hereafter refer to capitalism in the narrower sense above mentioned as *Wage-Capitalism.*

The quintessence of wage-capitalism is the relation of master and servant, a relation which involves power and dominion on the one side, and dependence and servility on the other. It is this which enables the capitalist to appropriate the whole product of the laborers' toil, over and above the meager subsistence which the laborer must receive if he is to live and reproduce his kind, so that the supply of labor at the service of the capitalist may be constant.

It is this, and the very meagerness of his wage, which holds the laborer in a condition which in a certain sense may be considered one of bondage to the capitalist. For though the laborer may sometimes exercise a certain liberty of choice as to where, or at what occupation, he will work, it is such a form of liberty as the illustrious philosopher and sociologist, Herbert Spencer, had in mind when he wrote: "This liberty amounts in practice to little more than the ability to exchange one slavery for another, since, fit only for his particular occupation, he has rarely an opportunity of doing anything more than decide in what mill he will pass the greater part of his dreary days."*

THE RISE OF WAGE-CAPITALISM IN ENGLAND.

Wage-capitalism came into existence in England during the last half of the eighteenth century as the result of conditions having their origin in the invention of the steam engine, the spinning jenny, the power loom, and such like labor-saving inventions of that period. Where formerly the industrial products required to supply the wants of society were supplied by ar-

Principles of Sociology, by Herbert Spencer, Sec. 820.

tisans working with simple tools, in household shops, the new machinery, multiplying the productive power of each worker many times, was grouped together in spacious shops or factories, and operated by the power of a single steam engine, making competition by hand workers impracticable, so that the latter were gradually forced to abandon their domestic industries and seek employment in the factories.

The high cost of the new machines, grouped as the purposes of economy required them to be, made it impossible for the workers, even collectively, to procure the required capital to own them; and so it was supplied, for the most part, by a class of persons who had previously amassed moderate fortunes by trading in the products of the domestic industries which the new factory system was superseding.

The greatly increased productive power of the new system was such that, even with the reduced prices obtained for the manufactured products, the supply was always greater than the demand. Also the reduced number of operatives required to supply the demand by means of the new processes, left many persons unemployed. Moreover, many of the new machines were operated by women and children which

lessened still further the number of former tradesmen of the domestic industries for whom there was employment in the factories. The glut of the labor market thus produced was something unheard of, and factory owners did not scruple to take advantage of it to impose upon their unfortunate employees the most severe conditions that could be endured, while paying the lowest wages at which subsistence, with little regard to decency, could be maintained. The hours of labor were usually fourteen, and in many cases sixteen, per day, and children from six years of age up, as well as women, without regard to age or condition, were required to work in this way. The conditions of contact between the sexes in the factories were such as to promote licentiousness within and without the factory. Drunkenness and immorality in both sexes were of common occurrence. The domestic ties and the duties arising therefrom between husband and wife and between parent and child, were lightly regarded. Even human slavery, disguised as apprenticeship, was practiced. It took the form of "binding out" by poor-law guardians to factory owners, of children from the poor houses, ostensibly as apprentices. These were herded together

when not at work, in crowded and unwholesome sleeping rooms, without regard to sex, insufficiently fed, poorly clad, and, if disobedient or refractory, were cruelly beaten, so that many died from ill treatment.

A parlimentary report for the year 1833 contains the following: "We hear of children and young people in the factories overworked and beaten as if they were slaves; of diseases and distortions only found in the manufacturing districts; of filthy, wretched homes where people huddle together like beasts; we hear of women and girls working underground in the dark recesses of the coal mines, dragging loads of coal in places where horses could not go, and harnessed and crawling along the subterranean pathways like beasts of burden. Everywhere we find cruelty and oppression, and in many cases the workmen were but slaves, bound to fulfill their masters' commands under fear of dismissal and starvation."*

Such, in part, is the story of wage-capitalism as exemplified in the English factory system and in the mining industry during the first third of the last century.

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*Quoted by Charles Beard in *The Industrial Revolution*, London, 1901.

It seems incredible that such conditions could exist in a civilized and a Christian land; but the brief description here given falls far short of the horrible reality as related by the writers of that period. Anyone who wishes to learn more of the horrors of factory labor of which but a faint idea can be formed from what has been said in the foregoing pages, is referred to the work of P. Gaskell entitled *"The Manufacturing Population of England, its moral, social and physical condition, and the changes which have arisen from the use of steam machinery"* (London, 1833). Any one who reads Mr. Gaskell's work will realize that, without exaggeration, it may be said that the condition of the English factory operative in the early days of wage-capitalism was vastly worse, in regard to food, clothing, housing and morals, than that of the serfs of the middle ages, or of the negro slaves of the Southern United States before the war of the rebellion.

WAGE-CAPITALISM IN AMERICA.

In America wage-capitalism did not so early find a foot-hold, nor have the conditions which existed in the factory districts of England ever found a parallel in this country. The conditions of the working

class in the early days of wage-capitalism in this country were bad enough, however, and, as to hours and general conditions of labor, differed only in degree from the conditions which existed in England, and not so greatly in that regard as one might expect in a newly settled country. "In both countries the cradle and the home were robbed to secure victims for the natal sacrifice of new-born capitalism."* About the year 1816 there was estimated to have been 100,000 persons employed in the manufacture of cloth in the United States, of whom about 10 per cent. were men, 66 per cent. women and female children, and 23 per cent. boys. The hours of work were twelve to fourteen per day, and the wages ranged from $11.50 per week for a comparatively small number to an average of $1.50 per week or less, for female children. The textile mills in New England generally ran thirteen hours a day the year round, and one in Connecticut ran over fifteen hours. Professor Ely, the learned American writer on economics, declares that women and children had to be at work at half past

*_Social Forces in American History_, page 172, by A. M. Simons.

four in the morning, and sometimes were urged on by the use of the cowhide.*

The rapid development of railway construction, which began about the year 1830, following the invention of the locomotive, the invention of the hot blast process in the iron industry, the use of anthracite coal in the smelting of iron, and the general use of coal for steam purposes, which resulted from the rapid increase in the number of steam power industries, all combined to open a field for capital in the manufacturing, mining and transportation industries, unparalleled in the history of the world. Compared to the industrial transformation thus produced the industrial changes incident to the introduction of steam power and the factory system before mentioned, which has been called the Industrial Revolution, were of trivial importance, as measured by the amount of capital involved, the number of persons employed, and the results, as affecting the industrial and commercial future of society. In every stage of its development, however, and in every department of industry into which it has entered, the activities of capitalism have been characterized by the same faults,

**Evolution of Industrial Society,* by Richard T. Ely, page 59.

which it has manifested in greater or lesser measure according to the degree of freedom with which it has been permitted to pursue its own methods in its dealings with the laboring classes, the agencies of government, and the general public.

The most pernicious of the faults of capitalism, regarded from the viewpoint of their effects upon the general well-being of society, is the manner in which, when left to themselves, capitalists in general—though with some admirable exceptions—dealt with their employees. In their inordinate greed of gain they have, speaking generally, regarded neither the lives, the health nor the moral, physical or social well-being of their employees. Until forbidden to do so by law or restrained by the power of organized labor, capitalist employers required their employees to work under unsanitary conditions, and neglected in many cases to provide suitable safety appliances to protect them from danger of accidents by exposed or otherwise dangerous conditions of machinery or places for work.

SCANTINESS OF WAGES.

In the matter of wages the smallest amount which the worker could be induced or forced to accept has generally been the

measure of his remuneration. Until, by the power of organization, the laborer was enabled to wrest from his employer something more than enough to supply the bare necessities of life, that, and scarcely that, was all he received. Even with the power of organized labor behind him the average wage earner today receives less than a decent living wage. In consequence of this condition the working classes of today are compelled to submit to a low standard of living in the midst of comforts and luxuries, the products of their labors, which may be seen on every hand, for the enjoyment of the middle and upper classes—as rated by financial standards—but in which comforts and luxuries the classes which produce them are rarely or never permitted to share.

But scant as are his wages at best, and meager as is the subsistence which they afford, the earnings of the average wage-worker are still further reduced by unemployment. Without tools in the form of machinery, the worker in modern industrial operations can do nothing. But the tools belong to the capitalist, who will not allow them to be used unless he can realize a profit on the worker's labor in addition to a fair interest on his own capital. Disre-

garding the economic law that cheapness of a given commodity tends to create a demand for it, the average capitalist would close his establishment when business is slack, and wait for the demand to come from scarcity of supply (though the operatives starve in the meantime), rather than forego his profits or lower his interest.

Industrial production goes on increasing from year to year, under the capitalistic regime, piling up for the few, colossal fortunes wrought out of the blood and sweat and bone and muscle of the many, while the average wage-worker lives from hand to mouth, no better off at the end of the year than he was at the beginning, but one year nearer to the inevitable time when, no longer able to do a man's work, he will be rejected—"scrapped," like a worn out machine—and doomed to drag out the remainder of his miserable life as a dependent upon the filial duty of his children, or upon the charity of some more distant relative, or the still colder "charity" of the poorhouse.

A DECENT LIVING WAGE.

I said, in a preceding paragraph, that the average wage worker of today receives less than a decent living wage, and as a result is compelled to submit to a low standard

of living as compared to the manner of living affected by persons of higher rank in a financial sense. I realize that standards of living are relative matters, and vary with the time, the place and the state of civilization that is in mind. It is to be understood that reference is here made to present day standards of civilization in America. The accuracy of the statement further depends upon what constitutes a living wage, for as to that there is room for a wide diversity of opinion. It is important, therefore, for the sake of clearness that some space be given, in this connection, to a discussion of the question: What constitutes a living wage and a proper standard of living for the American workingman?

Mr. John Mitchell, formerly president of the United Mine Workers of America, in his book, *Organized Labor,** says: "The American standard of living of the year 1903 is a different, a better, and a higher standard than the American standard of living of the year 1803. The American workman of the present day is a better workman, more intelligent, more industrious, more efficient than his forefathers of a hundred years ago. . . . While the

*Pages 115-119.

standard of living has risen, it has not by any means kept pace with the increased productivity of labor." The workman of today is therefore, relatively to his productive power, worse off than was his prototype of a century ago.

Speaking of the standard of living that should obtain among the laboring classes in America, Mr. Mitchell says: "In cities of from five thousand to one hundred thousand inhabitants the American standard of living should mean, to the ordinary unskilled workman with an average family, a comfortable house of at least six rooms. It should mean a bathroom, good sanitary plumbing, a parlor, dining-room, kitchen and sufficient sleeping room that decency may be preserved and a reasonable degree of comfort maintained. The American standard of living should mean to the unskilled workman, carpets, pictures, books, and furniture with which to make home bright, comfortable and attractive for himself and family, an ample supply of clothing, suitable for winter and summer, and above all a sufficient quantity of good, wholesome, nourishing food at all times of the year. The American standard of living, moreover, should mean, to the unskilled workman, that his children should be kept

in school until they have attained the age of sixteen at least, and that he be enabled to lay by sufficient to maintain himself and his family in times of illness, or at the close of his industrial life, when age and weakness render further work impossible, and to make provision for his family against his premature death from accident or otherwise." The rate of wages at which this standard could be maintained was estimated by Mr. Mitchell to be not less than $600 per year in communities between the limits of population above mentioned. In view of the great advance in the cost of living since Mr. Mitchell's book was written (1903) it is doubtful if this standard could be maintained now on $800 a year.

ELEMENTS OF A LIVING WAGE.

Dr. John A. Ryan, in his excellent work, *A Living Wage,* reviews the descriptions and definitions of a number of economists as to what constitutes a living wage, among which there is none that is at once more terse, more complete and more accurate than that of President Gompers of the American Federation of Labor. He defines a living wage as "A wage, which, when expended in the most economical manner shall be sufficient to maintain an

average sized family in a manner consistent with whatever the contemporary local civilization recognizes as indispensable to physical and mental health, or as required by the rational self-respect of human beings." Dr. Ryan discusses categorically the most essential requisites of a living wage, and concludes that food, clothing, shelter, mental and physical culture, life and accident insurance—all in a reasonable degree—are essential elements of a decent livelihood. Remuneration inadequate to secure all of these things to the laborer and his family, falls below the requirements of a living wage.

Professor Albion W. Small, while at the head of the Department of Sociology of the University of Chicago, declared, as quoted by Dr. Ryan,* that: "No man can live, bring up a family and enjoy the ordinary human happiness on a wage of less than a thousand dollars a year."

Dr. Ryan after an exhaustive discussion of the elements that enter into a living wage, expressed in terms of money, and without distinction between skilled and unskilled labor, gives his own conclusions, with characteristic conservatism, as to what constitutes a living wage, to the effect

**A Living Wage,* by John A. Ryan, page 136.

that in any of the cities of the United States anything less than $600 per year is *not* a Living Wage; that this sum is *probably* a Living Wage in those cities of the Southern states in which the principal necessaries of life are cheaper than in the North; that it is *possibly* a living wage in cities of moderate size in the West, North and East; and that in some of the largest cities of the last named sections it certainly is *not* a living wage. In the ten years since Dr. Ryan's book was published (1906) the cost of living has increased, at a low estimate, twenty-five per cent. so that the same standard of living which Dr. Ryan then estimated to cost $600 a year can not now be maintained under $750.

Having described the content of a living wage and defined it in terms of money, in a manner which, if it be open to criticism, it must be on the grounds of excessive conservatism, Dr. Ryan proceeds to estimate the proportion of wage earners in several industries who fail to receive a living wage. He shows by computation based upon a special report of the twelfth census (1900) on Employees and Wages, comprising thirty-four "stable and normal industries" classified under the general heads of textile, wood-working, metal-working and miscel-

laneous, that sixty-six per cent. of the adult males received less than a living wage. He further shows, by a similar computation based upon the figures given in the sixteenth annual report of the Interstate Commerce Commission, relating to the 1,302,494 railway employes—exclusive of officers—that seventy-two per cent. of the adult males failed to receive a living wage.

FALSE PHILANTHROPY.

When so large a proportion of the laboring classes of the United States are compelled to subsist upon a wage which falls below the requirements of a decent livelihood, while millionaires multiply and manufacturers amass enormous fortunes by the profits of unrequited labor, and flaunt their wealth with unseemly prodigality in the faces of the oft-times hungry and ragged workers whose hands created it, or pose as philanthropists, while building to themselves monuments in the form of library buildings, colleges, universities and philanthropic foundations, endowed with such wealth as to make the fabled riches of Croesus seem insignificant by comparison, with never a thought of the workers whose sweat and blood and muscle they have transmuted into gold by the alchemy of capital-

ism, it is little wonder that social unrest and discontent exist.

When it is said that a very large percentage of wage earners, as shown by Dr. Ryan, earn less than a living wage, it is not to be understood that the average of those whose wages fall below that line receive anything near the sum which Dr. Ryan estimates as the minimum living wage. Professor Scott Nearing in his valuable study of wage statistics entitled *"Wages in the United States,"* shows that in that portion of the United States east of the Rocky Mountains and north of Mason and Dixon's line 75 per cent. of the adult male employees and 95 per cent. of the adult female employees receive annually less than $600; that 50 per cent. of the adult males and 90 per cent. of the adult females receive annually less than $500; that 10 per cent. of the adult males and 35 per cent. of the adult females receive less than $325 annually; and that 20 per cent. of the adult females receive less than $200 per annum.

It is chiefly the insufficiency of the laborers' wage which lies at the bottom of the class struggle. If what is a matter of common knowledge can be any more firmly established as a fact by a citation of high

authority, we have the declaration of the Federal Commission on Industrial Relations, speaking by its Chairman, Mr. Frank P. Walsh, in its report to Congress (August, 1915), to the effect that low wages is the basic cause of the prevailing unrest and discontent among the working classes.

"We find the basic cause of industrial dissatisfaction to be low wages," writes Mr. Walsh, in the report above mentioned, and he adds: "We further find that unrest among the workers in industry has grown to proportions that already menace the social good will and the peace of the nation."

EXTREME POVERTY OF THE WORKING CLASSES.

The limits of this chapter forbid a more exhaustive treatment of this branch of my subject, but I would refer any one who would learn more of the real depths in which a large number of the laboring classes lives under the regime of capitalism to read some of the works which treat of the condition of the laboring classes, among which I would particularly mention *Poverty,* by Robert Hunter, and *How the Other Half Lives,* by Jacob Riis.

A perusal of these works will disclose such conditions of wretchedness and misery in the lower stratum of the laboring classes

in the large cities of America, that the crowded, reeking, noisome tenements described by Gaskell in his work above referred to, and the ill-clad, ill-fed, ill-paid, despairing wretches who inhabited them and which were the ordinary products of wage-capitalism during its earlier years in England, will seem to have their counterparts in the United States today in the stratum above mentioned.

It is not to be denied that the condition of the average wage earner today is vastly improved as compared to the average factory operative of three-fourths of a century ago, or that could the factory workers of that time have been permitted to work at the rate of wages and under the conditions of labor which obtain today for the same class of labor, they would have thought themselves a happy lot of people. But the workers of today are an educated, intelligent, class-conscious and self-assertive class, with a higher and juster conception of their rights, as workers and as human beings. The change in the social condition of the working class within the period mentioned is not so great as the change in the intellectual status of the average individual of that class and in his conception of the rights of his class, as the real producers of

the world's wealth. Nor has the increase in his wages within the period before mentioned, kept pace with the increased productiveness of his labor; for with every improvement in the processes of industrial production whereby the produce of labor has been increased in quantity or value, the lion's share of the increase has always been appropriated by the capitalist.

"Now more than ever," writes Chairman Frank P. Walsh, of the Commission on Industrial Relations, "the profits of great industries under centralized control pour into the coffers of stockholders and directors, who never have so much as visited the plants, and who perform no service in return. And while vast inherited fortunes, representing zero in social service to the credit of their possessors, automatically treble and multiply in volume, two-thirds of those who toil from eight to twelve hours a day receive less than enough to support themselves and their families in decency and comfort. From childhood to the grave they dwell in the shadow of fear that their only resource—their opportunity to toil—will be taken from them through accident, illness, the caprice of a foreman or the fortunes of industry. The lives of their babies are snuffed out by bad air in cheap lodg-

ings, and the lack of nourishment and care which they cannot buy. Fathers and husbands die or are maimed in accidents, and their families receive a pittance, or succumb in mid-life, and they receive nothing."*

APPALLING INFANT MORTALITY.

Of the appalling rate at which the lives of babies are being snuffed out by the means mentioned by Chairman Walsh, some idea may be formed from the following paragraph taken from the report of Basil M. Manly, Director of Research and Investigation of the above mentioned Commission:

"It has been proved by studies here and abroad that there is a direct relation between poverty and the death rate of babies; but the frightful rate at which poverty kills was not known, at least for this country, until very recently, when, through a study made in Jamestown, Pa., by the Federal Children's Bureau, it was shown that the babies whose fathers earned less than $10 per week die during the first year at the appalling rate of 256 per 1,000. On the other hand, those whose fathers earned $25 per week or more died at the rate of 84 per 1,000. The babies of the poor died at three

*Supplementary statement of Chairman Frank P. Walsh appended to the Commission Report.

times the rate of those who were in fairly well-to-do families. The tremendous significance of these figures will be appreciated when it is known that one-third of all the adult workmen reported by the Immigration Commission earned less than $10 per week, even exclusive of time lost. On the showing of Jamestown these workmen may expect one out of four of their babies to die during the first year of life."**

UNCERTAINTY OF EMPLOYMENT.

Next to the universal insufficiency of wages perhaps the most distressing of the evils attendant upon the wage system is that of the uncertainty of employment under it. Loss of employment may result, temporarily or permanently, from such a variety of causes—a season of business depression; the change of the seasons; the disfavor of a foreman or superintendent; accident, sickness or advancing age; the introduction of new machinery, and many others, that almost every wage earner in the manufacturing, mining, transportation, building, mercantile and many other branches of industry, lives in constant danger of it.

This uncertainty is ever present to the mind of the wage-worker burdened with the

**Report of Commission on Federal Relations, page 12.

ordinary responsibilities of life. It takes the cup of joy from the lips of love and replaces it with the gall and wormwood of doubt and fear. Sleeping and waking the wage-earner with a dependent family is ever haunted by the fear of want and suffering for those he loves, who are dependent upon him. To the wage-worker not so burdened, the holiest, tenderest and dearest relations of life—those of marriage and parenthood—are made to appear as things to be shunned and dreaded, and many are deterred by this uncertainty from realizing the highest purpose of human life; for, as the poet Burns has truly said,

"To make a happy fireside clime
To weans and wife,
That's the true pathos and sublime
Of human life."

Uncertainty of employment will never be eliminated so long as the question of employment depends on the will of an employer rather than that of the worker; nor is any remedy possible for such uncertainty which does not place the means of employment in the control of the workers.

THE WORKERS ORGANIZE.

The natural result of the conditions described in the foregoing pages has been to increase the discontent of the average workingman with his lot, and to intensify the feeling of hostility with which he regards the system which operates to keep him forever in hopeless poverty while his exploiters wax rich and ever richer upon the products of his labor and that of his fellow workers.

Not without a struggle, however, have the laboring classes submitted to the exploitation of which they have so long been the victims. In our day, to a greater degree than in any preceding time, the laboring classes have achieved a degree of solidarity in their age-long struggle for the betterment of their condition, that promises, at no distant day, their complete emancipation from the bondage of capitalism.

From the remotest times of which we have any historical record, down through the civilizations of ancient Egypt, Greece, and Rome, through the feudalism of medieval Europe and the universal commercialism of modern times, society has been divided with relation to the production of the things which minister to human needs, into two classes, namely, a ruling and a serving

class. The former has always been numerically small in comparison with the latter, and has ruled by virtue of its possession of wealth or military power. The relations between these classes, in the several stages of the world's history, are indicated by the terms master and slave, master and servant, lord and serf, employer and employee. Their mutual relations have been characterized, for the most part, by oppression, and at times by cruel and inhuman brutality on one side, and on the other, by patient submission, varied at intervals by uprisings and revolts, marked by riot, arson, rapine and bloodshed.

Historians have given little attention to the manner of living, or to the murmurings of the laboring classes during the periods covered by ancient and medieval history; choosing rather for their subjects the doings of the smaller but more powerful ruling classes which have more directly contributed to the important historical events of those times. For that which has passed for history is, generally speaking, but the history of the ruling classes. There are, however, scattered through this history sufficient references to the conditions of the laboring masses to show that they have had, at all times, a realizing sense of their

wrongs; that they have hoped and struggled unceasingly for the righting of them; and that their struggles have, in innumerable instances, taken the form of acts of violence and bloodshed of a most appalling character.

Within the present generation the class struggle has grown more intense than at any previous time in the world's history. World-wide in extent, the struggle today involves on one side the forces of labor organized like vast armies, equipped, mobilized and ready for attack against a common foe, and on the other the forces of capital, all but as thoroughly organized, and ready to make or to resist attack, as the occasion may demand. Indeed, it may be said that rarely if ever are the opposing powers entirely at peace, for somewhere in the world of industry a battle is always in progress; often many battles are going on at one and the same time. These battles usually take the form of strikes or lockouts, and while generally peaceful, they are often attended by riot and bloodshed, and in very many cases by great public inconvenience.

Mr. Carroll D. Wright, whose means of information on that subject were unexcelled, writing in 1906, said that "probably more strikes and lockouts, and labor dis-

turbances generally, have occurred during the last twenty-five or thirty years than in all the previous period from the dawn of the Christian era."*

STRIKES AND THEIR COST.

The economic loss resulting from these strikes is startling in its magnitude. In the 25-year period from 1881 to 1905, inclusive, there were, in the United States alone, 36,757 strikes and 1,546 lockouts, making a total of 38,303 disturbances involving a cessation of labor. The total number of persons who quit work, or were locked out from work, within that period was 7,444,279. The total number of days labor lost was 290,923,735.** The average number of wage-earners in all manufacturing industries in the United States in 1905 was 5,470,321 and the total amount of wages paid $2,611,540,532.*** A simple computation based upon these figures, and counting 52 weeks of 6 working days each to the year, will show that the average daily wages paid in all manufacturing industries in 1905 was $1.53. Now if we compute the 290,923,735 days lost in strikes and lockouts

*_The Battles of Labor_, page 76.
**Computed from _Report of Commissionars of Labor, U. S._, 1906, page 12.
***_Bulletin 37, Census of Manufacturers_, 1905.

at this rate per day we shall have a total loss in wages of $445,113,314.55. But this is only a small part of the economic loss. The data for computation of the indirect losses are insufficient to produce any accurate results. Some idea may, however, be formed in regard to them from an examination of the indirect losses resulting from certain other strikes in which such losses have been ascertained with reasonable accuracy. For this purpose the anthracite coal strike of 1902 will serve as well, perhaps, as any other. This strike lasted from May 12 to October 23, 1902; about 147,000 mine workers quit work. The loss to employees in wages was upwards of $25,000,000; the coal companies lost, in decrease in receipts, $46,000,000; there was spent in relief of the miners $1,800,000 and there was lost to the railway companies in decrease of receipts from freight $47,000,000.*

The total indirect losses thus shown as ascertainable, in addition to the direct loss to employees, is $124,800,000, or approximately five times the amount lost in wages to the strikers. If to the $445,000,000 of direct losses in wages, during the 25-year period before mentioned, we add the indirect losses in the same ratio shown in the

**The Battles of Labor,* by Carrol D. Wright, p. 148.

anthracite strike, we shall have a total economic loss, directly and indirectly, of $2,670,679,887. This was more than the national debt incurred in financing the war of the rebellion.

In addition to those items of indirect loss already enumerated there are others which occur in very many strikes, the nature of which does not afford any reliable data for calculation as to their amount. Thus in the brickmakers' strike in Chicago in 1914 the number of persons directly involved in the strike was only 2,000. But the strike caused a suspension of all building operations in that city, throwing 150,000 men out of employment, and involving an economic loss directly and indirectly, which was roughly estimated in the local press at a million dollars a day.*

In very many cases strikes were attended with rioting and other forms of disorder which necessitated the use of the police and military forces of the municipality or state, involving great expense. Thus, the State of Colorado expended over $1,000,000 in the suppression of disorder arising out of the labor disturbances in that state from 1880 to 1904.

Chicago Tribune, June 3, 1914.

EXORBITANT TOLL OF WAGE-CAPITALISM.

Yet another source of loss too often overlooked in counting the costs of labor disturbances is the diminution of efficiency of the employees. Every strike or lockout, especially where it is of long duration, and the struggle becomes severe, leaves the employees with a feeling of bitterness towards the employer which is certain to militate against the employees' efficiency. It is not in human nature for an employee to give the same degree of care and diligence to the service of a master whom he hates, that he would give to that of one towards whom he entertains a kindly feeling. Many who have observed the effects of kindly treatment of the laborer, or of special reward, as in the case of profit-sharing, as reflected in the quantity and quality of the product of labor, have attested the greater efficiency of the employee under the influence of these incentives, and have variously estimated the ratio of increase of efficiency at from 10 per cent to 33 1-3 per cent or more.

Thus it would seem that in the various forms of economic losses above mentioned, society, through the wage-earner, the taxpayer, and the consumer of industrial products, is paying an exorbitant toll to the institution of capitalism.

But a more serious matter yet remains to be mentioned. It is the threatened subversion of orderly government in the land. Year by year the fighting strength of the opposing forces in this war of the classes waxes greater. Every new battle is fiercer than the last, as the contending armies become better organized. Intimidation, violence, riot, arson, murder and insurrection, involving the loss of many lives, have marked the struggle between the opposing forces in several recent conflicts. Within the past two years we have seen armed conflicts between striking wage-earners and the civil and military forces of the state in Michigan, Colorado, West Virginia and New Jersey, in which many lives have been lost. In one case—that of the coal miners' strike in Colorado—the loss of life and destruction of property was on such a scale that a state of civil war was declared to exist, and the military forces of the United States were called upon to restore peace.

"The contest between capital and labor," writes Professor John R. Commons of the Commission on Federal Relations, "is more serious than any of the other contests. Since the year 1877 it has frequently resulted practically in civil war, with the army or militia called in to suppress one side or the

other, according to the will of the executive. It is claimed by some that this contest is irrepressible and will end in revolution, and at least it is plain when the military power is called upon to decide a contest, that the ordinary machinery of government, which is fairly successful in other contests, has broken down."*

A REMEDY OR SOCIALISM.

Many thoughtful men in every walk of life are able to see the trend of events, and to recognize that unless some means is found to restore industrial peace, and to remedy the ills which we have seen in an earlier part of this chapter to be the direct result of wage-capitalism, the advent of Socialism, which promises a most agreeable, and superficially plausible, remedy for the ills in question, cannot be long delayed.

To avert such a catastrophe by a readjustment of the industrial relations of society on a basis of social and industrial justice, and in a manner that will be consistent with the existing social order, and will oper-

*Report of Commission on Industrial Relations, p. 326.

ate to restore and conserve the rights of private property and private industry as those rights have existed from time immemorial until within a comparatively recent period, will be the aim of the system which will be proposed and explained in the following chapters.

CHAPTER II.

PROPOSED REMEDIES FOR INDUSTRIAL ILLS.

SOCIALISM; CO-OPERATION; TRADE UNIONISM.

We have seen in the preceding chapter the rise and development of wage-capitalism, and the evils which have arisen therefrom. Before setting forth the plan which it is the main object of this book to propose as a means of correcting those evils it is fitting that a brief examination be made of the most important of the agencies which have been proposed, and to a greater or lesser extent applied, as a means with which to combat the system of wage-capitalism and the evils to which that system has given rise. The agencies in question, to a discussion of which the present chapter will be devoted, are Socialism, Co-operation and Trade Unionism. I expect to show that in the case of Socialism it aims and threatens to overthrow the existing social order without producing any compensating benefit to the working classes or to society in general; that in the case of Co-operation, while in certain of its phases it is undoubtedly

beneficial, it is lacking in certain respects which make it impossible that, in the present state of the laws, it will ever be able to effect any considerable improvement in the condition of the laboring classes; and that, in the case of Trade Unionism, while it has worked immeasurable benefit to the laboring classes, and will continue to do so, it must go much further than its advocates at present seem to contemplate, if it would be the means of achieving the ultimate destiny of the laboring classes under an industrial system in which there shall be neither master nor servant in industrial establishments, but in which the workers shall collectively own the capital, in the form of the machinery and materials with which and upon which they work, and carry on their operations under the direction of managers appointed and removable by themselves.

SOCIALISM.

The limits of the present chapter preclude a general discussion of the question of Socialism, and compel me to limit the discussion to such matters as bear most directly upon the interests of the working classes, and upon the rights of private property and private industry.

Socialism is defined as "A theory of civil polity that aims to secure the reconstruction of society, an increase of wealth, and a more equal distribution of the products of labor, through the public collective ownership of land and capital . . . , and the public collective management of all industries."* It is a system of society in which all the means of production, distribution and exchange of the necessaries and luxuries of life are to be owned and managed by the government, national, state or municipal, and in which all individual rights are supposed to be derived from society.

The government, as the owner of all the land and the houses thereon, is to be the universal landlord. As the owner and manager of all productive industries, it will be the universal employer of labor. As the source of all individual rights, it will have power to control and regulate the personal affairs of the individual in his social, his domestic, his religious and all other relations, to conform to the views of the majority, which, as to all things and at all times, shall be supreme. With the State as universal landlord, as sole employer of productive labor and as general director of what we now consider the private affairs of the individual,

The Student's Standard Dictionary.

the status of the most abject "wage-slave," toiling his life away in the service of some great corporation, is a veritable dream of liberty by comparison with that of the individual citizen *as tenant, servant and dependent all in one,* under the government of such a state.

SOCIALISM AND INDIVIDUALISM.

A better understanding of the nature of things may often be gained by their examination in comparison with their opposites. The opposite of Socialism is Individualism. In the Socialistic theory of society the State is paramount in all human relations. The individual exists primarily as a part, and for the use of, the State, possessing no rights or privileges natural or conventional, save as a part of the State. "It is only by being a citizen of a well-ordered state," says Hegel, "that the individual has got rights."

In the individualistic theory of society the individual is paramount, and the State exists to protect the rights of the individual in person and property, as against any other individual who might attempt to invade those rights, as well as to protect all individuals within its jurisdiction, singly and collectively, from foreign enemies.

The Socialistic theory of the relation of the State to the individual, involving the paramountcy of the State and the subordinacy of the individual, finds expression today in government control and regulation of privately owned industry, in government ownership and operation of certain industries, in the demand for the ultimate ownership and operation by the State of all the instrumentalities of production, and in the rapidly growing tendency to enlarge the powers and functions of government, and to contract the rights, and curtail the freedom of action, of the individual.

The individualistic theory of the paramountcy of the individual, and the doctrine that the State exists only to insure and protect individual rights, though not always respected in practice, was universally recognized in civilized society long prior to the establishment of the government of the United States, and found eloquent expression in the American Declaration of Independence, wherein it is declared that all men are endowed by the Creator with certain unalienable rights, including the rights to life, liberty and the pursuit of happiness; and that *to secure these rights governments are instituted.*

The individualistic theory of the relation

of the government to the individual could scarcely be more clearly stated. If that declaration be accepted, it follows that if, in the exercise of that liberty which is man's natural right, he chooses to pursue industry as a means to happiness, it is the proper function, and the duty, of government to insure and protect that right rather than to impede or restrict it. A denial of this proposition involves a repudiation of the fundamental principles of the Declaration of Independence.

Conformably to this theory the right of the individual to possess property, and to freely use, control and dispose of his posessions, as also to carry on all manner of productive industry, free from government interference, save in so far as such interference may have been necessary to protect the equal rights of other individuals, was uniformly recognized in America from the foundation of the government until a comparatively recent time. During all this time the pursuit of industry for the production of wealth was deemed the proper sphere of individual, as distinguished from governmental, activity. The abandonment of this policy and the adoption of a policy, advocated by all Socialists, of public ownership of industry, when such ownership is not

necessary to the proper performance of governmental functions, is an adoption, to that extent, of the principle of Socialism.

PRESENT AIM OF SOCIALISM.

The present aim of Socialism, through the achievement of which it is hoped to establish the Socialist or "Co-operative" Commonwealth, in which the Socialist ideal is to be realized, of a commonwealth which shall possess all the land and all the capital, and in which the people shall be tenants, employees and dependents of the government, is to get control of the existing political machinery of society and use it to establish the Socialist State. This purpose is frankly avowed by some of the foremost speakers and writers of Socialism. In a book entitled *The War of the Classes,* by Jack London, one of the most popular and widely read of Socialist works, that author, with admirable candor, says:

"They intend to direct the labor revolt to capture the political machinery of society. With the political machinery in their hands, which will also give them control of the army, the navy and the courts, they will confiscate, with or without remuneration, all the possessions of the capitalist class which are used in the production and dis-

tribution of the necessaries of life. . . . In short to destroy present day society, which they contend is run in the interest of another class, and from the materials to construct a new society which will be run in their interest."*

As to the means by which the political machinery of society is to be captured, Socialistic opinion is not united. The nearest approach to an official declaration of intentions in that regard is contained in the Socialist Platform adopted at Indianapolis in May, 1912, as follows:

"Such measures of relief as we may be able to force from capitalism are but a preparation of the workers to seize the whole powers of the government, in order that they may thereby lay hold of the whole system of socialized industry, and thus come into their rightful inheritance."

In other words, every concession to Socialistic sentiment; every measure for the adoption of which Socialists contend, including government ownership of public utilities and mines (which measures they hope to have adopted by the aid of many persons who would disdain to be called Socialists), is to be used to advance, step by step, the

*_The War of the Classes_, by Jack London, p. 47.

cause of Socialism to the full realization of its aims.

TREND TOWARD SOCIALISM.

We are approaching a state of Socialist domination at a rapid gait, from various angles and by various paths. We have seen the growing tendency in that direction manifested by government activities in the control of private industry and by the growing demand for government ownership of certain classes of industries. But these are by no means the only manifestations of that tendency that are observable. Every protracted strike or lock-out, with the bitterness and class-hatred which it engenders, and more especially where the forces of labor suffer defeat, whether total or partial, affords a profitable field for the activities of Socialistic propagandists, who find little difficulty in making converts.

"The men who come to us now from towns where they have been thoroughly whipped in a strike, are among our most active working Socialists," said the Socialist Mayor of Brockton, Mass., to Professor John Graham Brooks, as related by that distinguished writer in his admirable work, *The Social Unrest.** Strikes are increasing in numbers

*p. 65.

and in the degree of bitterness with which they are waged; and every strike brings its quota of converts to the theories, and workers to the ranks, of Socialism.

Another means by which the goal of Socialistic endeavor may be reached, or which, at the opportune time, may bring to the battle-front the factor that may be decisive in the conflict between the forces of the existing social order and those of Socialism, is in the practice of the workers in certain industries to organize along industrial lines, i. e., the several craft unions in each industry joining in one large union of that industry, as in the cases of the United Mine Workers, the Railway Trainmen, and the like. This form of organization is the one specially advocated by that section of the Socialist organization called Syndicalists, or Industrial Workers of the World, as leading to the "One Big Union" by which the industry of the nation may be crippled through a general strike.

A few years ago the locomotive engineers, for example, on a single road, would have made demands upon their employer, and perhaps, would have struck if their demands had been refused by the employing corporation. Today it is the engineers and firemen of half the nation who make de-

mands upon ninety-eight railways combined. Tomorrow it may be the engineers and firemen of the whole nation, and the next day the engineers, firemen, trainmen, switchmen, shopmen, and all the other trade and labor organizations in the railway industry in the United States. Whether the interval between the several steps above mentioned be a day, a year or five years, is immaterial so far as the principle involved is concerned.*

The successful working out of the principle involved, as shown in the successes already achieved through the partial organization of the railway and mining industries, augurs the complete success of the plan in contemplation, when the organization of labor by separate industries shall have become general. Consciously or unconsciously to those concerned, the Syndicalist plan

*Since the above lines were written the engineers, firemen, conductors, and brakemen engaged in the freight service of practically all the railways in the country, and numbering, according to newspaper reports, about 400,000 men, have made demands upon their employers for an eight-hour day at present day wages, with time and a half for over time, which demands the railways have refused. As this chapter goes to the printer a strike has been called on all the railways to take effect in a few days, which the President and Congress are striving to avert, and which, should they fail to do, will mean, if long continued, the stoppage of all important industries in the country, throwing millions out of employment, and will cause incalculable suffering and innumerable deaths in large centers of population dependent upon railway service for their supplies of food and fuel.

is being worked out by the organization of labor more and more along the lines of separate industries. When the plan shall have been perfected by the complete organization of each of the great industries of the country separately, the consummation of the Syndicalist plan of confederating the several industrial unions into "One Big Union," and, at the opportune moment, of declaring the general strike and of seizing all the means of industrial production—the railways, factories, mines and the like—which is the ultimate aim of the Syndicalist Socialists, would seem to be but a question of organization and leadership.

THE GOVERNMENT IN BUSINESS.

Among the most powerful forces today, making for the ultimate triumph of Socialism and for the overthrow of the present social order, is the government in business. By this I mean the control of privately owned industry as well as the ownership and operation of business enterprises by government agencies, whether national, state, or municipal. I do not include under this latter head such industries as are necessary to be conducted by the government in the performance of its ordinary governmental functions, as the postal service in

the case of the national government, and water supply in the case of municipal government, nor anything which stands in a subsidiary relation to such enterprises; but such as, until a comparatively recent period, have been regarded as within the sphere of exclusively private enterprise, and free from governmental interference, except as to the ordinary regulations to promote the health, safety, and good order of society, including the enforcement of justice between individuals, singly and collectively.

"Few people realize the break-neck speed at which we have been drifting into that form of Socialism which has to do with governmental control of business," said Senator John W. Weeks, of Massachusetts, in an address before the Illinois Manufacturers' Association in Chicago, Dec. 8, 1914. To many persons who favor the most stringent governmental regulation of private industry and yet consider their views altogether consistent with the strictest regard for the rights of property, the idea that Socialism has anything whatever to do with governmental control of business will be rather startling. And yet, if they will pause to consider the fundamental principle of Socialism as opposed to that of individualism,

they will readily perceive that Senator Weeks was right in speaking of governmental control of business as a form of Socialism.

As yet the application of Socialistic principles in the form of government-owned and government-operated industries has not been made in the United States to any alarming extent, although there is a strong and increasing popular demand for government ownership of certain classes of industries. But in Europe, where Socialism is much more firmly established than in this country, the socialization of industry has been carried to a far greater extent than is even imagined here, except among Socialists.

In a book published recently (1914) in London, entitled, *The Collectivist State in the Making,* written by Emil Davies, a prominent advocate of railway nationalization, the author gives a long list of establishments embracing a wide variety of kinds of businesses, mostly in Europe, but including a few in other parts of the world, which have already been socialized in the sense that they are owned and operated by the state or municipality for public convenience or profit. This list comprises upwards of eighty kinds of businesses, many

of which may be regarded, in one sense or another, as public utilities, but much the greater number of which belong to that class of industries or businesses which, until a comparatively recent day, has been regarded as within the field of exclusively private enterprise.*

The concluding paragraph of the introduction to the book above mentioned contains the following statement: "If Collectivism is the failure that many people would have us believe, it is time some explanation was forthcoming to account for its extraordinary growth throughout the world."

*The following are some of the kinds of businesses mentioned by Mr. Davies as having been already socialized in different parts of Europe and America: Renting of lands; renting of dwellings, stores, shops, flats, etc.; operation of bridges, ferries, tramways, omnibuses, cables, telegraph, telephones; forests, timber and other forest products; nurseries and botanical gardens; coal mines; petroleum oil wells; gold, silver and diamond mines; iron mines; iron works; salt mines; chalk pits; natural gas; rubber plantations; potash works, producing various salts of that metal; camphor production; opium; bread, flour, meat, fish, and other food supplies; municipal restaurants; wine, beer, and spirits; tobacco; cigars and cigarettes; matches; gunpowder; fish-breeding; ice factories; grocery, meat and provision supply stores; gas and electric light and power plants; brick works; quarries, cigar and cigarette factories; clothing factories; harness and saddlery factories; woolen mills; china and porcelain manufactories; contracting of public works; warehouses; grain elevators; cold storage houses; slaughter houses; market houses; baker shops; drug stores; general stores; tourist bureaux; baths and spas; hotels and boarding houses; theatres; museums; picture galleries; lotteries and book-making; banking; pawn-shops; advertising agencies; book publishers; life, fire, accident, tornado, and hail insurance; funeral undertaking; burial grounds and crematories.

The same thought has doubtless occurred to thousands of other well-informed and thoughtful persons who see with amazement, mingled with fear or hope according to the view point from which it is regarded, the extraordinary growth of collectivism, or Socialism (to use a more familiar and synonymous term).

The explanation lies in the extraordinary skill and vigor with which the Socialist propaganda is carried on; in the world-wide circulation of Socialist literature in every form, ceaselessly issuing from printing presses that never stop; in the appeal which the Socialist theories and promises make to the imagination of the poverty-stricken, the oppressed, and the discontented among the laboring classes; in the hatred engendered in the working classes toward the capitalist class by the ever-recurring battles between capital and labor in what has been called "the war of the classes;" and in the success with which the Socialist propagandists have played upon the miseries of the poor and the oppressed to win their support to a theory which, upon superficial view, seemed to offer some hope of better things, of which elsewhere there appeared to be no hope.

IS SOCIALISM DECLINING?

There is a disposition observable in certain quarters of late to regard Socialism as having reached the zenith of its influence, and to have entered upon a stage of retrogression. This view is based upon a certain falling off in the Socialist vote in recent elections in the more populous sections of the United States and in certain portions of Europe.

No more serious mistake could be made in regard to Socialism than to imagine that it is in a state of decline; or that the extent of its influence is to be gaged by the numerical strength of the Socialist vote. Moreover, the falling off of the vote in some sections, which is easily explainable upon other grounds than that of retrogression, was coincident with a gain in certain other sections.

The strongest proof that not only is Socialism not declining in strength or influence, but that its influence has never been more widely felt than it is now, is afforded by the vast number of laws enacted year after year, extending in a thousand ways the control of government, national, state, and municipal, over private property and private industry. Such laws reflect the

spirit of Socialism, with which society, without realizing it, is fairly saturated.

Another proof of the wide prevalence of the Socialist spirit may be seen in the rapidly growing demand for the socialization, i. e., public ownership, of railways and other public utilities. Many non-Socialists, including some who are bitterly opposed to Socialism, advocate the socialization of public utilities, and stoutly maintain that public ownership of such utilities is not Socialism. Even some Socialists make the same claim, but in a qualified sense. Mr. Morris Hillquit, one of the leading American Socialist writers, states the Socialist position in this regard when he says that Socialists of all countries favor the municipalization or nationalization of public utilities, only, however, as a measure to be carried out by an administration controlled, or strongly influenced, by the working classes.* Those who are opposed to Socialism, yet who favor the socialization of public utilities, should bethink themselves that Socialism means the socialization, or public ownership, of all industries, and that every single industry that is socialized, whether it be a "public utility" or not, is a step towards the fulfillment of the Socialistic plan.

*Socialism in Theory and Practice, p. 287.

The total capital employed in the railway industry alone in 1910, in the United States, was approximately $18,000,000,000 to $20,000,000,000 which amount was about equal to the capital employed in all the manufacturing industries of the country combined. If to this there be added the capital employed in all the other public utilities it will make considerably more than half of all the capital employed in productive industry in the country, exclusive of farms and mines. If to all this there be added the capital employed in the coal mining industry, for the socialization of which industry there is a strong favoring sentiment throughout the country, it will be seen that nearly two-thirds of all the industrial capital of the country would be socialized.

SOCIALISM A REAL MENACE.

With the forces mentioned in an earlier part of this chapter as explaining the extraordinary growth of Collectivism of which Mr. Davies speaks; with the powers of government steadily expanding at the expense of individual rights; with the demand growing daily more wide-spread and stronger for the socialization of public utilities and mines, and the tremendous power which the socialization of these industries

involves, in view of the fact, as above shown, that they represent much the greater part of all the industrial wealth of the nation; with the certainty that this power, when gained, would be used as a lever to overthrow the existing social order, and "seize the whole power of government in order that they may thereby lay hold of the whole system of socialized industry"; it will be seen that the menace of Socialism is no idle dream—no mere bogey designed to scare timid capitalists into the adoption of measures of social justice; but a very real and imminent peril which it behooves all who hold in respect the principles upon which rest the prevailing social, political, and religious systems of civilized society to take measures to avert while yet they may.

If, then, the existing social order is to be perpetuated; if labor is to be made free and the rights of property secure; if the theory of the relations which should subsist between the individual and the government, as expressed in the American Declaration of Independence is to be vindicated, (which theory involves, as we have seen, the principle of government as the protector, but not the source, of individual rights); if the rights of individuals, singly or in group, to acquire, enjoy and dispose of their prop-

erty, free from unnecessary governmental control or interference, as contemplated by the founders of the government, is to be restored—for it no longer exists in its entirety—Socialism must be eliminated; and the activities of government must be restricted to the business of governing, and such related activities as the necessities of government, liberally construed, but with due regard to individual rights, shall require.

CO-OPERATION.

The term "Co-operation," in the broad sense in which it is sometimes used by writers on political economy, embraces almost every form of commercial, agricultural, and industrial activity in which individuals, or groups of individuals, associate for the production, purchase, distribution or sale of commodities. For the purposes of the present work, we are concerned chiefly with that form of co-operation which has to do with the relations of capital and labor employed in the production of commodities, and which has received the name of Productive Co-operation.

Productive co-operation is exemplified in a variety of forms which, in the main, may be classified under three heads as follows:

(1) Establishments in the ownership of which the workers have no part, nor any voice in the management, but receive in addition to their regular wages, a definite proportion of the profits of the establishment. This form of co-operation is commonly designated as Profit-Sharing.

(2) Establishments in which the workers are the owners of a substantial share of the capital with which the productive operations are carried on, and have in virtue of such ownership, a voice in the management, and receive in addition to the standard rate of wages a share in the profits proportionate to the amount of their wages, and a certain other share as the earnings of their capital; the remaining portion of the capital being owned by non-working share-holders. This form of co-operation is commonly designated as Labor Copartnership.

(3) Those in which the workers exclusively own the capital, carry on their operations under the direction of managers of their own selection, and distribute the profits among themselves on an equitable and mutually acceptable basis. This also is called Labor Co-partnership, which name, however, as applied to this class, would seem to be rather unhappily chosen, since it fails

to indicate any distinction between this and the class above described, in which some of the profits go to non-working capitalists. To indicate the status of such a group as the last above mentioned the name of Operative Ownership would seem a much more appropriate appellation, as will be shown in a later chapter.*

PROFIT-SHARING AND LABOR COPARTNERSHIP.

Under the name of Profit-Sharing as above defined there is embraced a wide variety of co-operative schemes. In most of these the capitalist, with a view to evoking a higher degree of efficiency in his employees, allows them to participate in the profits to a very limited extent, so that the increased efficiency of the operatives, arising from the hope of greater reward, will not only produce all that they receive as their share in the profits, but will also yield to the capitalist a larger profit than he would otherwise realize. Such arrangements, besides obviating much of the friction incident to the ordinary wage system, form a cheap sort of insurance against strikes, by attaching to the privilege of participation the condition that the employees shall take no part in any strikes; and in

*See Chapter III. *infra.*

some cases, that they shall not be members of a labor union.

Not all profit-sharing establishments, however, are actuated by the motives of those referred to in the preceding paragraph. Some, though unfortunately a small minority, give their employees a very substantial share in the profits in addition to the standard rate of wages, without imposing any restrictions upon the employees in regard to membership in labor unions, and some even encourage such membership. But the workers are given no voice in the management, and no hope is held out to them that they can ever acquire any interest in the establishment, or be anything but employees though they work a lifetime in it.

The third class of co-operative schemes mentioned in the foregoing classification, that in which the workers collectively are the sole owners of the establishment in which they carry on their operations, is exemplified in a multiplicity of concerns which were started in a small way by the workers, with capital contributed by themselves, many of which have grown to very respectable proportions. This class also comprises many large concerns which, originally established and conducted on capitalistic lines, were afterwards changed into

copartnership establishments in the manner described in the preceding paragraph, and finally evolved into complete operative-owned establishments when the original capitalist owners, having acquired a sufficient store of wealth to satisfy their desires in that regard, and being desirous of further rewarding those by whose skill and labor, first as employees and later as partners, their wealth was produced, transferred to the workers or operatives their remaining interests in the establishments, to be paid for out of the future profits.

A brief description of one or two establishments which exemplify the form of labor copartnership under discussion, which in their main features have served as models for many others, and which are frequently mentioned in the writings of economists, will serve to illustrate the principle of labor co-partnership, and the manner in which it was applied, better, perhaps, than any description in general terms which I could give.

THE MAISON LECLAIRE.

Probably the first establishment to exemplify the principle of labor co-partnership on a scale and in a manner to attract attention was that known as the Maison

Leclaire. This establishment was founded by Edme Jean Leclaire, a contractor of house-painting, of Paris, in 1827. In 1838 he induced his permanent workmen to form a Mutual Benefit Society to provide for mutual help in time of sickness, and this society became the nucleus of the co-operative scheme which he afterwards established.

In 1842, recognizing that by greater diligence and care of tools and materials his employees could largely increase the profits of his business, he introduced a system of profit sharing with a view to furnishing them with an incentive for the exercise of these virtues, as well as to make provision for their old age. "I saw," said Leclaire, "that it paid me better to make more and to give an interest in the profits to my workers who helped me, than to make less and give them no such interest." John Stuart Mill, in his *Principles of Political Economy,** speaking of M. Leclaire's relations with his employees at this period says: "He assigns to himself, besides interest for his capital, a fixed allowance for his labor and responsibility as manager. At the end of the year the surplus profits are divided among the body of employees,

*Book IV, Ch. VIII, Sec. 5.

himself included, in the proportion of their salaries."

Under the profit-sharing system the hours of labor of the employees were reduced; the ordinary wages were maintained at the highest rate paid for the same class of labor anywhere in the city, to which wages the workers' share of the profits formed a substantial addition. The business increased greatly under the new system, and the profits of the owner increased correspondingly.

In 1863 the Mutual Benefit Society was incorporated and was made a partner in the business, and in 1869 the business itself was incorporated, with a capital of $60,000 of which M. Leclaire held $20,000. For the future government of the society M. Leclaire prepared and put in force an instrument in the nature of a constitution, which he called the "Charter of Labor," which prescribed minutely and at length the details for the management of the establishment. M. Leclaire soon after withdrew his share of the capital and retired from Paris to a country place where he soon after died, leaving a fortune of over 1,200,000 francs as the result of his success, which he attributed to the scheme of labor copartnership.

The house of Leclaire (now known as

Brugniot, Cros, et Cie,) is still in a prosperous condition, having increased its capital to more than double what it was when M. Leclaire withdrew from the concern. The capital is held, pursuant to the "Charter of Labor," five-eighths by the Mutual Aid Society, and three-eighths by the Managing Partners, of which there are two. These are elected for life by a chosen body of workers, but may withdraw at will or may be removed for certain reasons and in a certain manner prescribed by the charter. The capital receives 5 per cent. interest and the net profits after that are apportioned as follows: 50 per cent. payable in cash to the workers, of all classes, in proportion to wages; 35 per cent. to the Mutual Benefit Society; and 15 per cent. to the Managing Partners, who, in addition to their share in the profits and interest on their capital, receive a salary of $1,200 a year.

THE FAMILISTERE SOCIETY OF GUISE.

One of the most widely known of all the establishments in which the principle of Labor Co-partnership is exemplified is that known as the Familistere Society of Guise. This establishment was founded by M. Jean-Baptiste Andre Godin for the manufacture

of stoves and other iron utensils of household use. From a small beginning the business under the management of M. Godin grew rapidly to large proportions.

From an early period in the career of M. Godin as a manufacturer he seems to have contemplated the development of his establishment, with regard to its relations with its workers, along communistic lines, modeled after the systems elaborated by M. Fourier, with communal workshops, communal dwellings, communal stores, etc. In furtherance of this idea M. Godin, in 1859, commenced the erection of the familistere or communal apartment house for his employees, building one part at a time, and gradually developing a system of communal dwellings, stores, schools, parks, boulevards, bath houses, theatre, restaurant, and in short, all the necessaries of a self-contained community.

For the purposes of this examination we are, however, concerned chiefly or wholly with the industrial phase of M. Godin's enterprise, for in that respect, and that only, it has served as a model, in some of its most important features, for many other co-operative establishments in which the principle of labor copartnership has been applied.

In 1880, having some years previously introduced the principle of profit-sharing in his establishment, M. Godin organized, in legal form, the society, composed of himself and his workmen, to which he gave the name of the "Familistere Society of Guise."

A constitution, the result of long and careful deliberation by M. Godin, was drawn by him, and formally adopted at a meeting of the workmen held for that purpose. This instrument provided for the organization and future regulation of the affairs of the society in minute detail.

M. Godin, at the time of the organization of this society, transferred to it his entire establishment, at a valuation of 4,600,000 francs ($887,800), the fairness of which valuation has never been questioned. He received in exchange "founder's certificates" to the full value of the establishment. These certificates constituted the provisional capital stock of the society. They bore interest at the rate of 5%, in addition to which the holder participated in the net profits of the establishment in common with the workers, on the theory that where capital was employed in industrial production, it was entitled to wages the same as labor—the wages of capital being the interest—and that both should participate in the net prof-

its in proportion to their wages without distinction between wages of labor and wages of capital.

It was provided in the constitution that the share of the profits payable to the workers, in addition to the standard rate of wages, should all be applied to the purchase of founder's certificates, which was done, and new certificates, which were called "savings certificates" were issued in like amounts, and distributed to the workers according to the share of the profits which each was entitled to receive. The savings certificates were to receive the same rate of interest and the same share in the profits as the founder's certificates. When all the founder's certificates had been taken up and paid for with the savings of the workers, the latter became the sole and absolute owners of the establishment. This point was reached in 1894.* The establishment, in all its branches, was still in successful operation at the beginning of the great European war, but it has since been reported as utterly destroyed in that catastrophe.

The co-operative schemes of Godin and Leclaire, while differing widely in many im-

Industrial Communities, by W. F. Willoughby, in *Bulletin of the Department of Labor*, September 1896; *Co-partnership in Industry*, by C. R. Fay, pp. 37-58; *Co-partnership and Profit-Sharing*, by Aneurin Williams, pp. 116-136.

portant matters of detail, possess many fundamental features in common. Both have exemplified the principle of Labor Copartnership in the successive stages of profit-sharing, part-ownership and complete ownership, of the means of production by those who work, with hand or brain, in productive operations; and both exemplify a certain trend of industrial development from profit-sharing to co-partnership (using the former term in a true sense, and not as a scheme of anti-strike, anti-trade-union insurance), and from copartnership to complete ownership by the workers.

SLOW PROGRESS OF CO-OPERATION.

But the adoption of the principle of co-operation in the forms exemplified by Godin and Leclaire depends wholly upon the will of each individual employer, as affected by his benevolent disposition and his sense of justice, or the lack of these virtues; and while many employers possess them abundantly, such employers are, relatively to the total number of employers, insignificantly few. While this condition continues in industrial relations, the progress of the form of co-operation involving the principle thus exemplified must necessarily be slow.

Nearly a hundred years have elapsed

since Robert Owen first advocated the principle of co-operation between capitalist and laborer on a basis that would secure to the latter a more equitable share of the produce of his labor. Philanthropists, political economists, sociologists, in every generation from that time to the present, have written and spoken in advocacy of the same principle; yet the number of establishments in which any approach to a just distribution of the produce of labor, as between workers and capitalists, is made, may be reckoned in scores, where those in which the capitalistic principle of the most work for the least money is applied may be reckoned in tens of thousands.

Nor is there any reason to hope that that form of co-operation in which the workers not only have a direct interest in the profits of their own work, but are also the owners, in whole or in part, of the capital with which it is carried on, as exemplified in the systems of Godin, Leclaire and many others who have followed their example in principle if not in detail, will ever become general so long as its adoption depends upon the voluntary act of each individual employer of labor.

WHAT CO-OPERATION LACKS.

Undoubtedly the schemes inaugurated by Godin, Leclaire, and their followers embody the principle wherein lies the ultimate solution of the labor problem through the ownership and management by the workers of the means of industrial production. But there is lacking in the various schemes above described for the solution of that problem, something vitally essential to their efficacy, and which must be supplied before the principle in question will ever be adopted on a scale sufficiently broad to affect, to any appreciable extent, the status of the laboring classes in general. The thing that is lacking is a means whereby the adoption of the principle of joint participation in management and profits, and joint ownership, by capital and labor, may be made, by law, obligatory upon industrial capitalists in general, while scrupulously respecting their legal and ethical rights of property. Under the operation of such a system all capitalists would have to conform to the requirements of social justice in dealing with their workers, where now it is left to their own free wills to do so or not, and only a comparatively few conform to those requirements.

TRADE UNIONISM.

The most successful and, as judged by its achievements, the most practical agency for the betterment of the condition of the laboring classes, which has hitherto been proposed or put into operation, is that of Trade Unionism. Not all other agencies combined have accomplished a tithe as much in that regard as has this single agency.

It is chiefly through Trade Unionism that working hours in industrial establishments have been reduced from fourteen, and in some cases sixteen, a day to ten, nine or eight; that conditions of labor with regard to health and safety from accidents have been vastly improved; that liability for accidents incident to the employees' work has been placed by law upon the employer; that regulations governing the employment and conditions of labor of women and children, with a view to conserving their health and safety, and scores of other regulations for the benefit of the laboring classes have been established by law. It is chiefly through unionism that wages have been increased by from one hundred to two hundred per cent or more in little more than a single generation—a gain, however, which is absolute rather than relative; and which is

largely, if not wholly, offset by the increased cost of living; but without which the situation of the laboring classes would be deplorable indeed.

Trade unionism found the laboring man prone upon the earth at the feet of his capitalist master, with the master's foot upon his neck. It has raised him to an upright posture, head erect, and level with that of his master. It found him a cringing, fawning, suppliant thing. It has imbued him with a sense of the dignity of manhood and of the rights of labor. It found him without the spirit to look his master in the face and ask for what was his due—a just share of the wealth which he produced. It has inspired him with a sense of his deserts, and with the spirit to stand face to face and eye to eye with that master and to demand his rights—nor need he bow the head nor drop the eye in making his demand. It found him with the spirit of a slave, and it put into him the soul of a man!

We saw in the last preceding chapter that organized labor carries on ceaseless warfare with capital for the rights of labor. But its activities have been by no means confined to struggles between employer and employee. A very large part of its achievements have been won through

the medium of public opinion, to the formation of which the energies of organized labor are steadily and intelligently directed. To this influence, in large measure, and in part also to the influence of organized labor operating directly upon legislative bodies, is due the enactment of that large body of laws, so beneficial to the laboring classes, which are usually referred to by the general title of Labor Legislation.

By means of legislation brought about in this manner labor has won in innumerable instances, rights and benefits for which it had striven long and vainly by direct negotiation with capitalist employers, and which rights, had they not been won by legislation, would, doubtless, have been the subject of many a bitter struggle between capital and labor, with the usual incidents of class hatred and economic loss which invariably attend such struggles, when waged by means of the strike or the lockout, the boycott or the blacklist.

TRADE AGREEMENTS.

The highest achievement of organized labor is the trade agreement. Under this system the principle of collective bargaining, for which organized labor has fought so strenuously and persistently from the be-

ginning, is recognized to the full. The capitalist, or association of capitalists, by its representatives, confers directly with the representatives of the labor union, and an agreement is entered into fixing the wages, hours and conditions of work during the life of the agreement, and providing a method for the peaceful settlement of any disputes which may arise under the agreement or in relation to the matters embraced therein.

In general trade agreements are entered into, not between a single establishment and its employees, but between an association of all or a number of establishments in a given industry and in a given locality, on the one side, and the unions representing all the employees of those establishments, on the other, and cover not only the rate of wages and certain details of management—such for instance as the employment and discharge of workers, the number of apprentices, and the like, but in some cases the prices at which the product shall be sold.

The system of trade agreements, notwithstanding that it marks a distinct improvement in the relations between capital and labor, is not to be understood as an ideal scheme for the unification of the in-

terests of capital and labor. It is merely a method of peaceful settlement for a limited period of time, of questions upon which the opposing interests of employers and employees predispose them to disagree; a system in which the representatives of the opposing interests meet in joint conference, bluff and wrangle, each side striving to gain an advantage over the other, and finally compromise, rather than resort to the strike, the boycott, or other form of industrial warfare.*

Trade agreements were known in England as early as 1860, and the system is said to be highly developed in that country. In the United States it has been less kindly received by the capitalist class, although of late years the system has been more freely adopted than formerly. It is still, however, confined to a comparatively small number of industries and localities. It has not eliminated strikes, although its tendency is to lessen the frequency of their occurrence. Wherever the system of trade agreements has been adopted it has been a distinct triumph for the principles of unionism.

"It has often been said of late," writes President Emeritus Charles W. Eliot, of

**History and Problems of Organized Labor,* by Frank Tracy Carlton, pp. 243-245.

Harvard University, "that the joint agreement is the real goal of unionism."*

THE TRUE GOAL OF TRADE UNIONISM.

The question as to what will be the future of unionism is one concerning which there is much speculation among publicists and sociologists at the present time. That with the general adoption of the system of trade agreements, the goal of unionism will have been gained is the belief of many, as indicated by the words above quoted from Doctor Eliot. If this be true, the attainment of the goal would leave nothing more to be achieved, so far as the demands of labor were concerned, and the principal object of unionism thereafter would only be to support the claims of labor in the joint conferences between the representatives of capital and labor respectively; and, if necessary, to enforce the demands of labor by means of the strike, in the event that the conferees should fail to effect a mutually satisfactory agreement.

The better opinion, as it seems to me, is, not that organized labor has any specific reform or achievement in contemplation to which its efforts are consciously directed as

**The Future of Trades-Unionism and Capitalism in a Democracy*, p. 32.

a goal; but that it exists for the advancement of the interests of the laboring classes by the advocacy of any measure which, from time to time shall seem beneficial; for the resistance of any measures which may seem injurious to those rights and interests; and to meet and deal with any exigencies, industrial or political, affecting the laboring classes, as such exigencies may arise.

But if Trade Unionism is to be the instrument through which the higher and ultimate destiny of the laboring classes is to be worked out—a state in which they shall have no employers with whom to wrangle about wages, and no trade agreements to make or to enforce, but in which the workers shall be their own capitalists, owning collectively the capital with which they carry on their productive operations—it must do something more than maintain its organization for the purpose of carrying on a campaign for higher wages and better conditions of work; and must do more than safeguard the rights and interests of labor in any industrial or political developments which may affect those rights and interests. It must adopt and pursue some definite plan tending to bring about and hasten the realization of that destiny.

For it is not to be supposed that so pow-

erful an organization of the laboring classes as we have in America today would be content with the system of trade agreements, or with any other arrangement of industrial affairs which contemplated as a permanent institution the relation of master and servant, or—to use a less harshly sounding term meaning the same thing—employer and employee, without striving for the greater moral and material benefits, and the greater industrial freedom involved in some form of partial or complete ownership by the workers, of the means of industrial production. The system of trade agreements, which Doctor Eliot regards as the highest achievement and the goal of organized labor, however great may be its advantages as compared with the system at present generally prevailing in industrial relations, involves the continuation of the relation of master and servant in the field of industrial production. As a permanent system it would mean the establishment of a serving class and a master, or ruling, class, somewhat resembling the plebeian and the patrician classes of ancient Rome. However well the trade agreement system might serve to mollify the feelings and increase the wages of the laboring classes, there would still remain, among its inseparable

attributes, two of the most odious features of capitalism, namely: the working class would still be the hired men and hired women of the master class; and the master class would still live, not by its own labor, but by appropriating the product of the workers' labor, by right of the mere ownership of the tools with which the latter work.

There is inborn in every human breast an instinctive desire for liberty. After numberless ages of development this desire, in so far as it related to political conditions, found expression in various portions of the earth and at various times, in the demand for civil and political independence. It has been realized in part in several modern states whose peoples are politically self-governing. But the principle of industrial liberty has not developed as rapidly as has the principle of political liberty, and side by side with political freedom there exists industrial bondage.

With the attainment of the working classes to higher standards of education, and the growth among them of the habit of general reading which the last generation has witnessed, they have gained a higher conception of the dignity and the rights of labor. The spirit of industrial liberty is moving among them, and they are

beginning to demand some measure of self-government in industrial affairs. The day is coming, and I believe it is near at hand, when the laboring classes will demand not only their full equitable share of the products of their toil, but an equal voice with their capitalist associates in the management of the establishments in which the labor of the laborers and the capital of the capitalists are jointly employed, and the right to acquire, at a fair price, and own, a substantial interest in the establishments in which they work. For they will not always be content to be mere wage earners, dependent upon the will of a master for the opportunity to earn a living.

Whoever, therefore, would set a goal for the achievement of organized labor, or set a limit to the aspirations of the laboring classes, short of the absolute industrial independence which is to be realized only by the collective ownership of the tools of industrial production by the several groups of persons who work with those tools, misconceives both the spirit of the laboring classes and the irresistible tendency of social development in the field of industrial production.

If the ownership of the tools of industrial production is profitable to the capital-

ist owners, such ownership would be profitable to the workers, including both hand and brain workers. If the small measure of control which the workers are able to exert in the management of industry under the trade agreement system is an advantage, the complete control which appertains to complete ownership is better. If the increase in the wages of labor which it is hoped to realize through trade agreements is good, *the whole produce of labor,* which would go to the laborers when they should be the sole owners of the tools of labor, with no non-working capitalists to take any part of the profits in the form of dividends or otherwise, would be better.

The ownership by the workers of the tools and materials with which, and upon which they work is, then, the ideal condition, from the workers' point of view, of industrial production; and whether it is to be achieved by the plan which I shall suggest in the next chapter of this book, or by some other means, that, and that only, is the natural and logical goal of trade-unionism.

CHAPTER III.

OPERATIVE OWNERSHIP.

THE TERM DEFINED.

From the brief examination of the relations subsisting in the industrial world between capital and labor which was made in the preceding chapters, and from the condition of the laboring classes in their social and industrial relations thereby disclosed, it is obvious that some means must be found of effecting a more equitable apportionment as between the capitalist and the worker, of the wealth produced through the exercise of their combined functions, as well as of meeting the natural and reasonable aspirations of the workers for some measure of industrial self-government, if the strife and bitterness of class warfare is to cease, and the existing social order is to be perpetuated. Such a means, I confidently believe, will be found in the scheme of Operative Ownership, to a description of which the present chapter will be devoted.

Operative Ownership, as the term indicates, means, in a literal sense, as applied

to industrial relations, the ownership of industrial establishments by the operatives collectively who are employed therein. In another and less exact sense, and one in which it will be sometimes used in this book, it is to be understood as applying to the system herein proposed by which, after passing through the transitional stages of, first, joint operation of industrial establishments by the capitalist owners and the operatives collectively, and, later, joint ownership of these establishments by capitalists and operatives, the final stage of the system, or complete ownership by the operatives, will be achieved.

We are familiar with the terms "private ownership," "public ownership," "municipal ownership," "government ownership," and the like, as indicating the nature of the group or collectivity by which a given industry or establishment is owned. The term **Operative Ownership** will serve a like purpose in the case of establishments owned in whole or in part by the operatives, and while indicating the nature of the ownership of establishments exemplifying that system, it will also serve to differentiate the system to which it is applied, and which is essentially co-operative in its nature, from other schemes which, while they embody

in some measure the fundamental principle of productive co-operation, are nevertheless radically different in many essential features from the one under consideration.

For the past two or three generations political economists and statesmen have labored assiduously to devise some means to eradicate those social and economic evils, the existence of which provoked that dissension and strife between labor and capital of which a brief description was attempted in the first chapter, and which of late years have come to be known as "the war of the classes." They failed because, as a general rule, they confined their theorizing or their investigations, which was the sum of their achievements, to expedients which would not conflict with the principle of capitalism, in any of its phases, which institution they seem to have regarded as too sacred or too powerful to be assailed.

Those, on the other hand, who, like Marx, Engels, Leibknecht, and others, saw nothing to be admired or respected in capitalism, went to the opposite extreme of regarding that institution as the sum of all human iniquities, and would overthrow not only the institution itself, but the whole social fabric upon which it rests.

Many profound observers and students of

social and economic conditions, however, have regarded capitalism as a thing neither too sacred to be assailed, nor so vicious that the whole social fabric must be overthrown because of it. Such persons recognize that the existing social order, the central idea of which is the right of private property, does not to any extent whatever depend on capitalism, which is but a single phase of the institution of private property, which latter institution existed thousands of years before capitalism was heard of, and would persist though capitalism in every form should be abolished.

FUNDAMENTAL ERROR OF THE CAPITALIST THEORY.

The fundamental principle of wage-capitalism involves the assumption that labor is a commodity. Upon this theory capitalism attempts to justify its treatment of the working classes and its conceptions of the relations which should subsist between capital and labor. This theory has had the support of some of the most eminent political economists from the days of Adam Smith to the present time. Even many of the leaders of the laboring classes, as well as writers who advocate their cause as against that of capitalism, accept this theory with-

out question. That it is fundamentally unsound is susceptible of easy demonstration.

The term, "commodity," is defined as "goods, wares, merchandise; anything movable which is or can be bought and sold."* Human labor cannot in a true sense be bought and sold because it does not exist apart from the laborer who performs it. The blood, tissue, energy, and intelligence, which are expended in the form of labor are, until so expended, a part of the laborer himself; and to buy these unexpended elements of potential labor it would be necessary to buy the laborer, which since slavery is abolished, can no longer be lawfully done. Labor is the act of transforming these constituents of the human organism, in combination with external substances, into a new product; but until the transformation is accomplished the human elements of the combination are still blood, tissue, energy and intelligence; while after the transformation they are not labor but the product of the combination above mentioned. The textile manufacturer may buy in the open market the wool, cotton, silk, chemicals, dye stuffs and other wares used in the manufacture of cloth. These, as well as the machinery used in manufacture, may be bought and sold.

*Webster's Dictionary.

They are chattels. Between them and the owner or vendor there is no physical relation or connection. The manufacturer *buys* his machinery and materials; he may *employ* labor; and when we speak of employing labor we mean employing the laborer, since labor and the laborer are one and inseparable. If labor cannot be employed without employing the laborer, neither can it be bought without buying the laborer. Not being a subject of purchase and sale, labor cannot therefore, in any true sense, be said to be a commodity.

Capital, however, regarding labor as a chattel or commodity and subject to purchase and sale, has insisted that when it has purchased labor for the lowest price at which it may be obtained, the laborer has no more right to claim any share in the produce of his labor beyond the price which the capitalist has agreed to pay for it in the form of wages, than the seller of any of the other articles used in productive operations would have to claim a share in the products, beyond the agreed price of the thing sold. To this manner of treatment labor is compelled by its necessities to submit. It cannot work without tools, nor without materials to work on. The tools of modern industry are costly machinery.

Modern productive processes to be profitable must be continuous. This requires a large amount of raw materials to be carried in stock. Machinery and materials represent capital, which the laborer lacks, hence he must have recourse to the capitalist.

MUTUAL NEEDS OF CAPITAL AND LABOR.

Machinery will not operate itself, nor will inanimate materials subject themselves to mechanical operations. These are the functions of labor; and these the capitalist, as such, cannot perform. Capital and labor are powerless, therefore, to carry on productive operations, one without the other. Their mutual interests and needs impel them to combine, but capital insists on dictating the terms upon which they will combine, namely: that labor must submit to be treated as a commodity, while capital controls the productive operations and appropriates the products.

The same motives of expediency and justice which from very remote ages have prompted society to curb the physically strong and protect the physically weak, when the former would use their strength to oppress the latter in their social relations, should prompt society, it would seem, in this highly civilized and enlightened age,

to curb the industrially strong and protect the industrially weak where the former would use its superior strength to oppress the latter in their industrial relations. But society looks complacently on while capital by means of its strength imposes upon labor an industrial system whereby the latter is reduced to a state of servility to the former when both should stand upon an equality one with the other.

For there is nothing in the nature of the functions performed by capital and labor, respectively, operating in conjunction with one another in the production of wealth, which, of itself, gives to the capitalist the sole, or even the superior, right to control absolutely the productive operations, and appropriate to itself the whole product of those operations, beyond what is required for a meager or even a comfortable subsistence for the laborer. Indeed, if the relative importance of the respective factors of capital and labor and the functions which they severally perform, were to be taken as the criterion of their respective values, it would seem that labor were entitled to much the larger share in the products.

To the joint operations capital contributes a machine—a composition of wood or metal, the invention and the handiwork of man. A

marvelous contrivance, it may be, indeed, as human contrivances go; but without the hand and the intelligence of man to guide and operate it, a mere collection of metal or wooden parts. Labor contributes to the process also a machine, but a machine of flesh and blood and intelligence. A machine not of man's contrivance, but the work—the masterpiece—of God's infinite intelligence and power, as far transcending in its marvelous perfection the machine of human contrivance as the infinite intelligence and power of God transcends the feeble intelligence and power of man.

STRIFE BETWEEN CAPITAL AND LABOR.

The right claimed and exercised by capital to dictate the terms upon which it will combine its functions with those of labor, however speciously it may be defended by certain economists, and by advocates of the theory that labor is a chattel or commodity, has its true foundation therefore, not in the greater importance of its contribution to the joint operations, but in the strength of capital and the weakness of labor. The owner of capital may use it for productive purposes, or may withhold it indefinitely from such use, without suffering any physical discomfort. The laborer, however, must

use his labor productively, and without loss of time, or he will suffer for want of the necessaries of life. But since, as we have seen, the laborer cannot work without tools and materials, which the capitalist controls, there is produced a situation in which the capitalist is enabled, by taking advantage of the necessities of the laborer, to force the latter to accept, instead of an equitable share in the product of their joint operations, which is the natural recompense of his labor, a fixed wage, usually the lowest which he can be induced or forced to accept, while the capitalist appropriates the entire product.

Not unresistingly, however, does labor submit to the hard conditions imposed upon it by capital, which it comes to regard with a feeling of hostility as its exploiter and oppressor; but carries on, through the power of organization, with every available weapon, an unremitting warfare, with the purpose of wresting from capital a larger and ever larger share of that wealth in the creation of which labor is a factor of at least equal importance to capital; while capital organizes to resist what it regards as the unreasonable demands of labor. What with labor organizing to lighten or to end the yoke of capital, and capital organ-

izing to perpetuate the yoke, the struggle, with its enormous economic loss, and the unutterable suffering, physical and mental, which it causes, seems likely to go on indefinitely, and with increasing bitterness until it ends in revolution or Socialism.

HOW CLASS WARFARE MAY BE ENDED.

In the industrial experiences of society two principles have been developed the general adoption and application of which to the prevailing industrial conditions would operate to place the industrial relations of society upon a basis of social justice, and avert the danger of revolution and the menace of socialism, to one or both of which the increasing bitterness of the class struggle inevitably tends.

The first of these principles, considered with relation to the chronological order of their application, consists in the combining of the functions and the resources of capital and labor, respectively, for industrial operations, not under conditions of subservience of one factor or group to the other, but on terms of equality, each recognizing the indispensability of the other, and each participating in the management of their joint operations, and sharing in the products of such operations on an equitable basis,

under a mutual arrangement whereby the labor group, besides participating in the management and in the profits, shall, in process of time and on certain agreed conditions, be admitted to participation, by purchase, in the ownership of the establishment in which they thus jointly carry on their operations.

The second of these principles consists in the union in one and the same person or group of the functions of capitalist and laborer.

The first above mentioned principle has been exemplified in a variety of schemes which are described in the literature of co-operation under the general appellation of Labor Co-partnership, and in some instances as profit-sharing. An illustration of the principles above mentioned, and of their practical application, in successive order, as profit-sharing, labor co-partnership and operative ownership, may be seen in the establishments known as the Maison Leclaire, of Paris, and the Familistere Society of Guise, a brief account of which was given in the preceding chapter.

The schemes of the Maison Leclaire and of M. Godin, the founder of the Familistere Society, in their most important features, have been taken as models, with many varia-

tions as to matters of detail, by many other co-operative establishments which are still in successful operation. These establishments, like those above named, exemplify the successful application of the principles of participation in profits with capitalist ownership; participation in profits and management with joint ownership, and finally the union of the functions of capitalist and workers in one and the same group, under complete Operative Ownership.

But that phase of industrial development which exemplifies the principle of the union in one and the same person of the functions of capitalist and worker found its most complete and universal application in the industrial conditions which prevailed in the time prior to the invention of the steam-engine and the establishment of the factory system. A brief description of the then prevailing industrial methods, and of the condition of the laboring classes in that period, will serve to illustrate the advantages that may be expected to accrue to those classes from the adaptation of this principle to modern industrial conditions, in the form of group, or operative ownership.

PRE-CAPITALIST INDUSTRIES.

In the time referred to, before the factory system came into existence, every tradesman, after he had passed through the preparatory stages of his craft—those of apprentice and journeyman—owned his own shop, his own tools, and in most cases, his own raw materials. There was no wage question, for there was little or no wages to be paid. The apprentice not only received no pay, but he paid for the opportunity to learn his trade. The journeyman, whose position was usually but a more advanced stage of apprenticeship, received very meager wages in addition to his board and lodging; but out of such wages as he received he saved enough, in time, to provide himself with the necessary tools with which to become a master-workman. For a workshop he used a part of his dwelling house, or an inexpensive outhouse in connection therewith. His stock of raw materials rarely exceeded the needs of a few days' work, and involved no large outlay. Thus there was no chance for dispute between capitalist and laborer, for the functions of capitalist and laborer were combined in one person. Every fully equipped tradesman was his own capitalist and his own laborer.

Speaking of the social conditions of the tradesmen of this period Mr. P. Gaskell, a writer who lived in the time before capitalism had come to dominate entirely the field of productive industry, in his work entitled "The Working Population of England, Its Moral, Social and Physical Conditions, and the Changes Which Have Arisen From the Use of Steam Machinery," published in London, 1833, says, in relation to the textile industry, which may perhaps be taken as typical of productive industry in general:

"It may be termed the period of domestic manufacture; and the various mechanical contrivances were expressly framed for this purpose. The distaff, the spinning wheel, producing a single thread, and subsequently, the mule and jenny, were to be found forming a part of the complement of household furniture, in almost every house in the district where they were carried on, whilst the cottage everywhere resounded with the clack of the hand loom.

"These were, undoubtedly, the golden times of manufacture. . . . It is true that the amount of labor gone through was small; that the quantity of cloth or yarn produced was but limited—for he worked by the rule of his strength and convenience.

They were, however, sufficient to clothe and feed himself and family decently, and according to their station; to lay by a penny for an evil day, and to enjoy those amusements and bodily recreations then in being. He was a respectable member of society; a good father, a good husband and a good son."

Well might the workingman of today, dependent, as we have seen in a former chapter, upon so many conditions over which he can exercise no control for the opportunity to use his strength and his skill in earning a livelihood, envy the capitalist-tradesman of earlier times the certainty of employment; freedom from want or the danger of it, whether in youth or old age; the position of independence; the social respectability and the happy domestic environment, which were the possessions of the working class before the functions of capitalist and worker were separated and before the capitalist arose as—no longer the worker, but the master of the worker; while the latter sank to the position of a servant, dependant for the opportunity to earn a livelihood upon the will of the capitalist.

ADAPTATION OF THE PRINCIPLE OF WORKERS' OWNERSHIP OF THE TOOLS TO MODERN CONDITIONS.

It is not of course possible, nor, from the viewpoint of society at large, is it desirable, to restore the system of domestic manufacture; yet the essential principle of that system—the principle of the combination of the functions of capitalist and laborer in one and the same person—may be restored by adapting it to the conditions of modern industry.

Instead of the simple tools with which the tradesman of pre-capitalist times worked, and by the means of which a single tradesman, working with many tools, carried the process of production of a given commodity through all its stages, from the raw material to the finished product, we have in our modern manufactories, intricate and costly machinery, by means of which each man, and sometimes several men, perform only a single operation which is but a small part of the long and complicated process of manufacture. Production on a large scale is thus made not only possible, but for the sake of economy, necessary. The large amount of capital required for the purchase of costly machinery makes the ownership by each worker of the tool or machine with which he works impossible. It

would, however, be easily possible for two or three or more persons who work with a single machine to own the machine jointly, and thus the principle of the ownership of the tool or machine with which men worked in the time referred to, would be applied, not indeed by each individual worker, but by the group.

The same principle would be carried out in large establishments by all the operatives in each establishment forming themselves into a single group, owning collectively the entire establishment, including buildings, raw materials, machinery, finished product, and all other forms of capital employed in the business. Thus by the universal adoption of a system of group ownership instead of individual ownership, an ideal method of industrial production, regarded not alone from the viewpoint of the laborer but also from that of society in general, would be established, whereby the workers would be the sole owners of the tools as well as of all other forms of capital with which they operated; the functions of capitalist and laborer would again be united; the social evils which arose from their separation would disappear, and the worker would again receive the whole produce of his labor.

DISTINGUISHED ADVOCATES OF THE PRINCIPLE.

I lay no claim to originality in the advocacy of the principle of ownership in whole or in part by the workers in industrial establishments of the tools with which they work. It has been advocated by many eminent economists and publicists, including some of such high authority that their judgments, expressed in favor of any economic proposition, should insure for that proposition, the serious consideration of mankind.

John Stuart Mill in his *Principles of Political Economy* said: "The form of association, however, which, if mankind continues to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief and work people without a voice in the management, but the association of the laborers themselves, on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves."*

Theodore Roosevelt has said again and again that the labor question, that is to say, the claim of the laborer to a just share of

*Principles of Political Economy, by John Stuart Mill, Vol. 2, Ch. VII, Sec. 6.

the wealth which he creates, will never be settled until the laborer becomes the owner in whole or in part, of the tools with which he works. In his speech in Chicago at the first national convention of the Progressive Party, called in the newspaper reports of the proceedings, his "Confession of Faith," Mr. Roosevelt said:

"Ultimately we desire to use the government to aid, as far as can safely be done, the industrial tool users to become in part tool owners, just as the farmers now are."

Dr. John A. Ryan, a writer of note on sociological topics, in the course of his debate with the Socialist writer, Morris Hillquit, in *Everybody's Magazine* in 1913, said: "Until the majority of the wage-earners become owners, at least in part, of the tools with which they work, the system of private capital will remain in Hilaire Belloc's phrase, 'essentially unstable'."

OBSTACLES TO ITS ADOPTION.

But how are the wage-earners to become the owners, even in part, of the tools with which they work? The tools of modern industry—the machinery, materials and other forms of capital by means of which industrial operations on a large scale are carried on—are costly, and their acquisition would

require a large amount of capital which the workers do not possess. Moreover these tools are now owned by capitalists who, for the most part find them highly profitable investments, and would be unwilling to part with them to the workers if the latter were able to buy.

While many economists and publicists have recognized that the true and final solution of the labor problem lies in the principle of the ownership by the workers of the tools with which they work, none, so far as I am aware, has suggested any practical plan by which that condition may be brought about. The nearest approach to a suggestion of such a plan is that contained in the statement of Theodore Roosevelt quoted in the third preceding paragraph.

But although he has not formulated any definite plan for its achievement, Mr. Roosevelt, in the short sentence above quoted, has suggested the means by which the prediction of John Stuart Mill in regard to collective ownership by the workers of the capital with which they carry on their operations, as quoted in an earlier paragraph of this chapter, may be realized. Let the government but aid the tool-users to become in part tool-owners, not by means of subsidies, or

any other form of gratuity, but by providing in the exercise of its sovereign functions of administering justice and promoting the general welfare, for an equitable adjustment of the relations between capital and labor, without allowing the strength of one side or the weakness of the other to affect the result, so that the workers shall receive a just share of the wealth which they create, while capitalists receive a fair return for the use of their capital, and the tool-users themselves will be able in most cases, in time, to achieve complete ownership of those tools, without further aid from the government, and in a manner that will receive the entire approval of their non-working capitalist associates. How this may be done will be shown in a latter part of this chapter. For the comparatively small number of cases in which such arrangements cannot be effected another form of government aid will be suggested.

The working classes have been advised, lectured and preached to for generations, about the beauties and benefits of economy, industry, thrift, diligence and a multiplicity of other social virtues, as a means of rising from the condition of wage-worker to that of wage-payer; or at least of gaining a sufficient competence to enable them to engage

in some independent business. With the great majority of them, however, the cost of living approaches too close to their earning capacity under the regime of wage-capitalism to admit of any such accumulation of wealth as would enable them to rise above the position of wage-earner.

Isolated cases may have occurred in which, through the intervention of some fortuitous event or circumstance, of which possibly the possession of a small amount of money, the fruit of years of industry and thrift, may have enabled some wage-earner to take advantage, and through which he may, in time, have risen to rank among the captains of industry. But in the vast majority of cases the wage-earner considers himself fortunate if with all the advantages that the practice of the virtues above mentioned can give he is able to keep a roof that he can call his own above his head, while rearing and educating a family. Even this is more than the average wage-earner is able to do. Save and economize as he may—and very many make the effort, as the very large accumulations in savings banks show—he will too often find, to his sorrow, that loss of employment, sickness, of himself or some member of his family, or some other reverse

of fortune, may dissipate in a few weeks the savings of years.

GOVERNMENT AID.

I have said above that if the government in the exercise of its sovereign prerogatives, should provide for an equitable adjustment of the relations between capital and labor, without allowing the strength of one side or the weakness of the other to affect the result; in other words, if the capitalist and the workers should be compelled to adjust their industrial relations upon a basis of mutual equality, with justice rather than power as the arbiter in their negotiations, the result would be such that the tool-users themselves, without further aid from the government, would in most cases be able, in time, by the savings which such an adjustment would make possible, to achieve complete ownership of the tools (the machinery) which they use in their industrial operations.

The reasons, as we have seen, why the tool-users cannot become even in part, tool owners are two-fold, viz.: because the present owners of those tools are unwilling to part with them, and because if they were willing, the tool-users have not the means, nor the opportunity, under the present

wage-system, of earning the means, with which to purchase them, or any substantial interest in them. To overcome these obstacles the owners must be induced, or in a certain sense compelled, to transfer (for full value) at least a substantial part in the ownership of those tools; and either the present wage-system must be so changed that the workers may receive a larger and more equitable share of the wealth which they produce, and be thereby enabled to apply a portion of their earnings to the purchase of a share in those tools, or the capital required for such purchase must be supplied by some other means than the earnings of the workers. These things can only be done through the aid of the government.

MANNER OF ITS USE.

The ways and means by which the aid of the government may be used to enable the tool-users to become, at least in part, tool-owners will be discussed at length in the next following chapter. It is fitting, however, that some explanation be given in this connection, of the plan in contemplation for that purpose.

It is proposed that Congress shall enact, to apply to industrial establishments of national consequence as concerning interstate

commerce, a law authorizing the operatives in any such establishment to organize themselves into associations, in corporate form, with power to enter into arrangements with the owners of the establishment in which the members of such association are employed, for joint operation of such establishment by the capitalist owners and the operatives collectively, and joint participation in the profits or losses thereof, and, for the right of purchase by the operatives, from time to time, or after an agreed number of years, of a half interest in the establishment.

It is further proposed that the power of eminent domain shall be granted, under the law in question to the operatives' associations, to the end that, should the owners of any such establishment refuse to enter into such arrangements with their operatives as would, in the opinion of the court or governmental department having jurisdiction of the matter, meet the requirements of social justice, such association might, by appropriate legal proceedings and upon just compensation made, condemn and take over such establishment, substantially as may now be done by railway and other public or quasi-public corporations, where private property is required for the use of such cor-

porations. Where establishments should be thus taken over by the operatives it is proposed that the necessary capital be supplied to the operatives by the use of the government credit, somewhat after the manner in which the British government lent its credit to the tenant farmers of Ireland a few years ago, to enable them to purchase the lands which they formerly tilled as tenants, with the result that Ireland has been transformed from a pauperized, oppressed, turbulent and rebellious country, and is become, so far as agrarian conditions are concerned, a prosperous, peaceful and contented one.

It may safely be assumed that the capitalists would be comparatively few who would prefer expropriation, in the manner above explained, to remaining in business under conditions which, while conforming to the demands of social justice, should enable them to realize a good return for the use of their capital, and a reasonable compensation for their time and skill as managers, or in some other capacity, should they choose to so apply themselves.

The use of government credit for the purpose above mentioned, therefore, would seldom be required, but when required would be granted under such safeguards as to

eliminate every practical possibility of loss to the government, from the use of its credit in the manner proposed, as we shall see in the next chapter.

TRANSITION FROM CAPITALISM TO OPERATIVE OWNERSHIP.

In those establishments whose owners should elect to enter into arrangements with their operatives for joint operation and ultimately joint ownership as above mentioned, the transition from the present system of wage-capitalism to that of complete Operative Ownership would be accomplished in three successive stages, somewhat after the plans of M. Leclaire and M. Godin described in the foregoing chapter, only two of which stages would be in any sense compulsory upon the capitalists—those of joint operation and joint ownership. The step from joint ownership to the third and final stage, that of complete Operative Ownership, could only be taken under the plan proposed, with the free and full consent of both capitalists and operatives, without which consent the relation of joint ownership would continue indefinitely.

In the first stage of the transition the capitalists and operatives would continue to exist as separate groups, exercising their

respective functions in combination, not, as under the regime of wage-capitalism, with one group subservient to the other, but under arrangements entered into on terms of mutual equality, each group participating in the operation and management of the establishment, and sharing in the profits in proportion to the current value of the thing which it contributed to the joint operations, namely, the use of capital by one group and the labor performed by the other. A definite proportion of the operatives' share of the profits would be reserved for accumulation in a fund to be maintained, among other purposes of mutual benefit, for the purchase, from time to time, or after a certain agreed period, of a substantial share, in the ownership of the establishment, the right to make such purchase being one of the terms of the arrangements above mentioned.

In the second stage of the transition the operatives, having purchased a substantial share in the ownership of the establishment, would become joint owners with the non-working capitalists, and receive, in addition to the share in the profits which they received as workers, in the first stage, a further portion of the profits corresponding to the extent of their interest as owners.

This would leave the ownership of the establishment in the hands of two classes of capitalists—working and non-working. The incentive of the working capitalists to own that portion of the capital held by the non-working capitalists being as we shall see in the next chapter, stronger than that of the non-working capitalists to retain it, the natural result would be that the latter, in course of time, would be induced to sell their interest to the former, and the third stage of the transition, or complete Operative Ownership, would be realized.

In all of the transitional stages above mentioned the evils of wage-capitalism would be eliminated; the workers would get their just share of the wealth which they created; and the capitalists, working and non-working, would receive a just return for the use of their capital and for the risk involved in its use, while both would share in the fruits of their joint success.

In those establishments which had been taken over by the operatives under the power of eminent domain, and by the use of government credit, there would, of course, be no intermediate stages between wage-capitalism and complete Operative Ownership, for the latter system would be brought into operation at a single step; the

tool-users would become tool-owners, and the laborer would possess the whole produce of his labor.

The question has been asked if it would not be dangerous to thus suddenly entrust the complete control and management of large establishments to the operatives employed therein, possessing neither managerial ability nor experience?

If there is one thing which may be considered as demonstrated by the financial and industrial experience of society during the past quarter of a century, it is that ownership and managerial ability as applied in large enterprises, have no necessary relation one to the other. At the time of the last official census of the United States (1910) the amount of capital invested in all the railways of the country was approximately $18,000,000,000, a sum nearly equal to the value of all the manufacturing industries of the country combined. Yet it is notorious that the actual management of these great industries is in the hands, not of their owners, but of salaried officials selected, not for any stock which they may hold in the industries which they manage, but for their managerial ability. And the same conditions exist in regard to the management of many

of the other great industries of the country. They are managed by salaried men, not by their owners.

In the case of many of the other great industries of the United States their owners or stockholders are scattered throughout the country and in many cases never see the property in which they are stockholders. Yet that the properties are successfully managed the financial reports of the great metropolitan newspapers as well as those of the financial journals abundantly attest.

To those, therefore, who would ask the question stated in the third preceding paragraph I would reply by asking what good reason can be given for supposing that stockholders scattered throughout the country, who never see the property they own, and know little more about it than may be learned from the daily press or the financial journals, are better able to select competent and successful managers than would be the men and women who spend their every working hour in the establishment, who see its every operation and can see when things are going well and when they are not?

JOINT OPERATION DISTINGUISHED FROM PROFIT-SHARING.

It has happened on several occasions in the course of friendly conversations on the subject of Operative Ownership and the transitional stages of that system which I have designated as joint operation and joint ownership respectively, that when I thought I had made perfectly clear the nature of the system of Operative Ownership and of its transitional stages above explained, as well as the exact relations which would subsist between the capitalists and the workers or operatives in each stage, I have been met with a remark or a question from some of my hearers indicating their conception of the plan proposed to be that of a more or less modified form of the system of profit-sharing. I am admonished by this circumstance that I cannot too strongly emphasize the distinction between these systems.

The erroneous idea of similarity between Operative Ownership, in the stages mentioned, and profit-sharing, arose, I think, from a misapprehension of the nature and effects of profit-sharing.

Profit-sharing, in the sense in which that system is most generally exemplified, is the giving of a small percentage of the net profits of an establishment to the workers

therein, in addition to their ordinary wages, as an incentive to extraordinary care and diligence in their work. This share, except in the case of a comparatively few establishments, is insignificant in amount, generally ranging from five to ten per cent of their ordinary wages, and representing but a part of the increased profits resulting from their increased efficiency produced by the hope of additional reward. But though the workers' share of the profits be small it serves the employer as an insurance against strikes and a weapon against organized labor, for it is either made a condition of participation in the profits that the workers shall not belong to a labor union, or the privilege is given in such a manner as to produce a sense of obligation in the workers for the benefits received, which deters them from demanding an increase in wages, or better hours or conditions of labor, which would often bring them more substantial benefits than would the small addition to their wages which their share in the profits would be.

"As usually employed," writes one who is a prominent figure in the councils of organized labor, in regard to profit-sharing, "it is a method for bribing the workman to remain outside of the union of his craft, to

discourage demands for better wages, to stimulate output and increase profits for the employer, the workman to receive a small share of his increased earnings."*

Between profit-sharing and those earlier stages of Operative Ownership which I have designated elsewhere in this book as joint operation and joint ownership, there is little or nothing in common. Under profit-sharing the worker has no voice in the management of the establishment in which he works; his share in the profits forms but a trivial addition to his wages, and is arbitrarily fixed by the employer; and he is deprived of freedom of action in regard to associating himself with others of his craft for the purpose of advancing their common interests.

Under Operative Ownership on the contrary, even in its earlier stages, the workers are to have an effectual voice in the management of the business, and receive an equitable share in the profits the extent of which is not determined by the arbitrary will of a capitalist employer. For there will be neither employer nor employee, under Operative Ownership, but the capitalist will

*J. C. Skemp, Grand Secretary-Treasurer of Painters, Decorators and Paperhangers Union of America, as quoted in *Profit-Sharing by American Employers,* published by the National Civic Federation.

be the partner in a real sense, of the workers. Capitalist and workers alike will share in the profits in proportion to what they have respectively contributed to their production, and the workers will be free to associate themselves with others of their craft as their interests or sympathies may prompt.

The stages of joint operation and joint ownership are to be compared rather to the system of labor co-partnership described in the last preceding chapter, which they strongly resemble, with the added advantage in favor of the former that, even under labor copartnership the share of the profits which the workers receive, or the extent of the interest which they may collectively or individually own in the establishment is arbitrarily fixed by the capitalist employers in the first instance, while in the case of joint operation the workers' share in the profits is determined by the equitable rule of distribution in proportion to what they contribute, as above stated, and the extent of the interest in the establishment which the workers collectively shall be entitled to acquire by purchase with their accumulated profits is a fundamental part of the scheme proposed.

In an article contributed to a pamphlet published by the National Civic Federation entitled "Profit-Sharing by American Employers," (1916), by Mr. J. W. Sullivan, general lecturer for the American Federation of Labor, in which article the systems of profit-sharing and labor co-partnership are compared, and in which the former is severely condemned, that writer, quoting with approval from another, says in regard to labor copartnership: "Owning collectively the tools they use the workers gain the sense and dignity of possession." "Possession has a strong educative influence; it lifts and elevates the mind of the employee, gives him a new interest in life, broadens his outlook on public affairs, strengthens his grit and character and makes him a better citizen." "Copartnership," writes Mr. Sullivan, further in the article referred to, "aims to absorb what share of industry it can through peaceful and legal measures—contract, compensation, step by step education in business and co-operative methods. It seizes legitimate opportunity to place laborers with their own capital in the position now occupied by capitalists and laborers."

All that has been said by Mr. Sullivan in regard to labor co-partnership may be as truly said of the more complete labor co-partnership of Operative Ownership. The error of conceiving joint operation or joint ownership as modified forms of profit-sharing, could not, therefore, arise in the mind of any one who was familiar with both systems.

CHAPTER IV.

WAYS AND MEANS.

RIGHTS OF PROPERTY SACRED.

In the scheme proposed in this book for the establishment of Operative Ownership the rights of property of the capitalist owners of the means of industrial production will be regarded as sacred and inviolable. Those who maintain that the system of wage-capitalism, by which many or all of the great fortunes employed in industrial production were made, is robbery of the laboring classes, and that therefore those classes, could they get control of the machinery of government, would be justified in confiscating the property thus employed, will find no aid nor comfort in the scheme herein proposed. The capitalist system may be altogether wrong. I believe I have shown in the preceding chapters that, in at least one of its phases, it is so; but its severest critic must, in fairness, admit that the question as to its justness or unjustness is considered by very many enlightened persons to be at least a debatable one, while the

preponderance of public opinion is upon the side of capitalism.

The methods by which the capitalists' wealth was acquired were such as have received the sanction of law in every civilized land, from the birth of the capitalist system to the present time, during which time the highest ethical standards have prevailed to which the human race has yet attained.

In the progress of time the moral standards of society change. The thing which in one generation is regarded as entirely consistent with the highest moral standards may, by a later generation, be condemned as utterly wicked and depraved. A single instance, of the many which might be cited from history, will suffice to illustrate this truth.

At the time of the establishment of the United States the institution of human slavery existed in many states, and was considered to be entirely consistent with the highest social, ethical and religious standards. Scarcely half a century has passed since hundreds of thousands of men shed their blood to perpetuate it. And yet, today, hardly a man is to be found to speak a word in its favor, even among the survivors or the descendants of those who fought to preserve it.

VIEWS OF SOCIETY CHANGING.

The views of society are changing today —they have been undergoing a change for years—on the subject of wage-capitalism. Multitudes of people have come, and other multitudes who have seriously studied and reflected on the subject are coming, to realize the injustice, as well as the inexpediency, regarded from the view point of public policy, of a system which enables one numerically small class of society, through the power which the possession of wealth gives it, to impose poverty, misery, suffering and ofttimes death, upon another class, by appropriating to itself an undue share of that wealth which is the joint product of both classes, giving to the latter class a portion insufficient in most cases for its subsistence in a condition of decent living, and in very many cases insufficient for the preservation of life and health.

We have seen in the preceding chapter that the ideal form of industrial production, having regard to its effect upon the social, physical and moral well-being of the workers, is that in which they own, individually or in group, the tools or machinery with which they work, and thus, combine in themselves the functions of capitalist and laborer, which combination of functions as

there explained, is the essential principle of the system of Operative Ownership. We have now to consider of ways and means by which the universal adoption of that system may be brought about.

OBSTACLES TO OPERATIVE OWNERSHIP.

At the outset we are confronted with two serious obstacles which must be met and overcome before the achievement of this purpose may be hoped for. These are: (1), the fact that nearly all industrial establishments are at present in the hands of capitalist owners who have no disposition to part with them to their operatives, and (2), the further fact that if the capitalist owners were willing to transfer their establishments to their operatives at their full value, the latter have not the capital with which to purchase them.

For the reason shown in the last preceding chapter, namely: the absence of any margin for possible savings under wage-capitalism between the earning capacity and the cost of living of the average workingman, it is hopeless to expect that, under that system of industry, the operatives, collectively, will ever be able, unaided, to buy out their capitalist employers. If, therefore, Operative Ownership—that is to say,

the ownership of the tools of industry by the tool-users—is ever to be realized, some other means than the savings of the operatives under the capitalist wage-system, must be found, to provide them with the necessary capital; and some means of compelling its adoption must be devised, rather than leave it to the choice of the employer to adopt it or not as he may see fit.

EXAMPLES OF BENEVOLENT CAPITALISTS.

Many cases may be found in the literature of co-operation in which, through the benevolence or sense of justice of certain capitalist employers, their employees were given a substantial share in the profits of the employer's business, which, being allowed to accumulate, enabled the employees collectively, in course of time to buy out their employers, and establish the system of Operative Ownership in those particular establishments. In one case, that of the Familistere Society of Guise, mentioned in a preceding chapter, all the profits of the business in excess of a moderate rate of interest or dividend on capital were annually given to the operatives and applied to the purchase of certificates representing an interest in the establishment, which in time resulted in the complete transfer of owner-

ship to the operatives. Many similar schemes have been adopted which in time developed into partial or complete Operative Ownership. In all such cases the adoption of the co-operative plan was the voluntary act of the capitalist employer. But experience has shown that the ratio of employers of this character to the total number of employers is so small that it would require many generations for Operative Ownership to become universally adopted, if it depended on the voluntary acts of capitalist employers. Such cases are valuable, however, as suggesting a means by which the industrial tool-users may, through their own industry become tool-owners, namely; by the successive stages of joint operation, joint ownership, and, finally, sole ownership, of the establishments in which they work, to be acquired by purchase with the savings which participation in the profits on an equitable basis enabled them to accumulate, as shown in the foregoing chapter.

The means thus suggested however, requires for its successful application, that some plan be devised whereby, without violating their legal or ethical rights of property or person, capitalists might be compelled to adopt, in their relations with their

operatives, a system whereby, while themselves receiving a just and reasonable return for the use of their capital, labor would receive a living wage, and the profits in excess of these items would be equitably apportioned between the two. Thus with surplus earnings in excess of the bare necessities of a decent living, the workers would be able to save a portion of such surplus earnings, by combining and systematically accumulating which, they would, in process of time, be able collectively to purchase a part, and ultimately the whole, of the establishment in which they worked.

Among the most important powers as well as the most imperative duties which appertain to the quality of sovereignty in any state or nation are those of administering justice and of promoting the general welfare. In the exercise of these powers it is competent for the State to impose such restraints upon the use of property, and upon the right of contract in relation thereto, as justice or the general welfare shall require. This power extends even to the taking of private property, upon making full compensation therefor to the owner, when the general welfare requires such taking. The power when thus exercised is called the power of eminent domain, under

which title it will be further discussed in a later part of this chapter.*

The quality of sovereignty involves the right, as against any power within the State, to exercise or to refrain from exercising any of its powers; and the right to refrain involves the right to impose terms, as an alternative to the exercise of such power, upon those who would directly profit by the non-exercise thereof. Thus, in the exercise of its sovereign powers, the State, in furtherance of justice and the general welfare, may authorize the taking over of all industrial establishments by the operatives therein, through the power of eminent domain, and with the aid of government credit; or it may provide that no establishment shall be thus taken over, the owner of which is willing to enter into arrangements with the operatives whereby such establishment may be operated upon terms consistent with social justice and the general welfare such as that the operatives shall have an effectual voice in the management of the establishment, an equitable share in the profits thereof, and the right to purchase, from time to time or after a reason-

*The taking of property under the power of eminent domain, upon compensation made, is not to be confounded with its taking under the police power, without compensation, which will be discussed in a later chapter.

able and definite term of years, an equal share with the capitalist share-holders, in the ownership of the establishment.

Thus the condition whereby the tool-users were enabled in isolated cases, to become tool-owners through the sense of justice or the benevolence of capitalist employers, to which repeated references have been made in the foregoing pages, would be realized in course of time, in the great majority of industrial establishments, by operation of law, where motives of justice or benevolence had failed to produce that result; while in the comparatively few cases, as we shall later see, in which the capitalists might be unwilling to enter into arrangements of the character mentioned in the foregoing paragraph, with the operatives, they might be subjected to compulsory sale of their establishments to the operatives under the power of eminent domain, in which event the tool-users in such establishments would at once become tool owners.

EMINENT DOMAIN.

I have said in the beginning of this chapter that under the plan which I should propose for the establishment of Operative Ownership the rights of property of capitalist owners of industrial establishments

should be held sacred and inviolable. But to many the plan of involuntary expropriation through the power of eminent domain suggested in the last preceding paragraph, will seem at variance with that statement. A true understanding of the nature of the power of eminent domain, and of the limitations which that power places upon the rights of private property, will show that the taking of property by virtue of that power involves no such violation, for as against the power of eminent domain, no rights of private property exist. It is desirable therefore that the nature of this power, which as an attribute of sovereignty takes precedence of all private rights, may be clearly understood.

Eminent domain is that power, inherent in every sovereign, by which private property may be taken for public use upon making full compensation therefor to the owner. A familiar example of the exercise of this power is seen in the taking of property, by condemnation, for railway purposes. Other examples of the exercise of that power are the taking of land for use as a highway, or for streets, parks, public buildings and the like. In every such case the right of the State, or its lawfully delegated agencies, to take property is absolute, and the

only conditions precedent to the taking are the judicial ascertainment of the value and its payment.

While this power may not ordinarily be used to compel the transfer of property from one person or group to another, it may be so used when such transfer is required in furtherance of some general plan designed by the legislative power to promote the general welfare.

Eminent domain is defined by Justice Cooley, the eminent American jurist and law writer, to be "that superior right of property pertaining to the sovereignty, by which the private property acquired by its citizens under its protection may be taken, or its use controlled, for the public benefit, without regard to the wishes of the owners."* "Title to property," says the same author, "is always held upon the implied condition that it must be surrendered to the government, either in whole or in part, when the public necessities, evidenced according to the forms of law, demand."**

EMINENT DOMAIN AN OPTION OF PURCHASE.

Thus it will be seen that the right of eminent domain is, in effect, an option of pur-

*Constitutional Limitations, p. 524.
**Ibid, quoting People v. Mayor, etc., 32 Barb. 112.

chase upon every dollar's worth of private property in the country, which option may be exercised whenever the public good requires it. This power may be delegated by law to any agency or corporate body to which the legislative body, in the exercise of its constitutional powers, may see fit to delegate it, whether it be a municipal corporation, a railway corporation, or an incorporated association of operatives, as the public interests may, in the opinion of the legislative body, require.

Nor can the owner of property so taken justly complain if the government, or its delegated representatives, see fit, on proper and lawful occasion, to exercise the power or option so reserved or delegated, since such owner is presumed to have acquired and accepted the property in question with full knowledge of the right of the government to take it, in the event, and upon the condition, above stated.

Should the sovereign people, therefore, through their legally constituted governmental agencies, believing the system proposed in this book as a substitute for wage-capitalism to be conducive to justice and the general welfare, see fit to lend their aid by the use of their credit, and by the exercise or delegation of the right of eminent do-

main, in establishing that system, they would be well within the limits of their legitimate powers in so doing.

EMINENT DOMAIN AND GOVERNMENT CREDIT.

While, as we have seen, it is improbable that any considerable proportion of capitalists would elect to allow themselves to be subjected to expropriation in preference to entering into arrangements of the character already described with the workers, it is probable that some would so elect; and whilst their number might be few in comparison with those who would be willing to enter into the arrangements mentioned, they might in the aggregate represent a very large amount of capital. To ask the government to assume the risk involved in aiding the operatives, by the use of its credit, to obtain the capital which would be required to compensate the capitalist owners, whose property would be thus taken through the power of eminent domain, is a matter requiring the most serious consideration. In this spirit the question will be treated in the following pages, and I believe that I shall be able to show that the risk involved to the government will be insignificant, while the benefits to be gained, not alone by the comparatively small num-

ber of operatives who would be direct beneficiaries of the government aid, in cases of expropriation, but also by the vastly greater number who as the result of a law being in existence authorizing such expropiration, would be admitted, on a basis of substantial justice as between capitalist and worker to participation with their former employers in the management and the profits of the establishments in which they work; and that, in addition to the benefits to be gained by the workers, the benefits that would accrue to society in general, through the cessation of class warfare; the general diffusion of wealth; the increased regard for the rights of property; and in many other ways, would be incalculable. Next to securing to its people the blessings of liberty, there is no other way in which the resources of a nation could be better employed than in the establishment of justice and the promotion of domestic peace and tranquility, in industrial no less than in political, relations; and what other industrial system can so powerfully contribute to the establishment of industrial peace on a lasting foundation as one in which the operatives are at once capitalists and workers, and in which there are no masters and no servants?

If, by what has been said in the foregoing pages, the importance and desirability of such a system as a substitute for that of wage-capitalism, and the necessity of government aid in bringing it into operation, have been made clear to the reader, which I make bold to assume, it is fitting that we next proceed to consider the manner in which the government aid may be made available, together with the question of the feasibility of such aid in the light of precedents in the use of government credit, and of government subsidies in aid of private enterprises, for the sake of the public benefits expected to be gained from such enterprises.

It is obvious from what has been already stated, that in order to authorize the use of government credit and the power of eminent domain in aid of the operatives, some appropriate action would have to be taken by the law-making body of the state or nation desiring to adopt and put into operation the scheme herein proposed for the achievement of Operative Ownership. Such legislative action should take the form of a law authorizing the incorporation of associations of operatives for the purpose of taking over from the owners, by purchase or condemnation, the establishments in

which they are employed; or of collectively entering into arrangements with such owners for joint operation of such establishments. Such associations should be given the power of eminent domain, and all other powers, consistent with the public interests, necessary to effectuate the objects of their organization. They should have power to issue bonds for the purpose of paying for the property to be taken over, and should be required to maintain a sinking fund with which to meet the bonds at maturity. For the payment of the bonds so issued the government would pledge its credit, in some appropriate form; having first caused to be made a rigid examination into the condition of the establishment to be taken over, and found it to be prosperous, somewhat after the manner in which banking or underwriting concerns investigate properties which they expect to finance, by bond issue or otherwise.

To safeguard the government against loss by the occasional failure of an establishment the bonds of which had been thus guaranteed, an indemnity fund should be provided to be maintained by assessment of every guaranteed establishment in proportion to the amount of guaranteed bonds in force against it, the rate of such

assessment to be based upon the known ratio of business failures in the industry to which such establishment belonged. Through such a fund each establishment would virtually and at its own expense, carry insurance in favor of the government, against the possibility of failure, just as it carries insurance against loss by fire. Nor would the maintenance of such a fund involve any burden to the establishments maintaining it, for the low rate of interest at which government-secured bonds could be marketed would more than offset the cost of maintaining the fund in question.

The more effectually to conserve the interest of the government it would probably be expedient to establish a government bureau or department, or a branch of some existing department, to have charge of all matters relating to Operative Ownership where the government credit was involved, which department should maintain a thorough system of inspection with regard to the financial and industrial conditions existing in every establishment thus aided, somewhat after the manner in which state and national banks are inspected. Such department should also have power by some appropriate means, to exercise, whenever it might be necessary, an effectual check upon

any mismanagement of such establishment, and, in extreme cases, to take temporary possession and assume management of the same, somewhat after the manner of receivers appointed by courts of equity.

EXAMPLES OF GOVERNMENT AID.

In the idea of government aid to privately owned enterprizes, given with a view to gaining some public benefit, there is nothing new or novel. The practice is centuries old. It has at various times, in different countries, taken a diversity of forms, such as subsidies on shipping; bounties on exports; protective duties on imports; monopolies; grants of money or land; and, in some instances, the public credit.

Perhaps the most interesting, and in connection with our present subject, the most suggestive instance that could be mentioned of state aid to private industry, given with the design to achieve a public benefit, is that of the Irish Land Purchase Acts, to which reference was made in the foregoing chapter. These were a series of acts passed by the British Parliament at various times between the years 1885 and 1909, inclusive, providing for the raising of money by the use of government credit to enable the tenant farmers of Ireland, which included prac-

tically the entire farming population of the island, to buy at a fair valuation, the land they formerly tilled as tenants, at oppressive and ruinous rents. This aid was given in the form of guaranteed land stock, bearing dividends of two and three-fourths per cent. to which was added an additional one-half per cent for the sinking fund which will ultimately wipe out the debt. One of the series of land acts above mentioned—that of 1903, provided $800,000,000 for the benefit of the Irish tenantry in addition to some $200,000,000 which had been made available for that purpose by previous acts; making a total of one thousand millions of dollars for which the credit of the British government was pledged for the purpose above stated. As a result of these acts, although less than thirteen years have elapsed since the most important act, that of 1903, was passed, upwards of 550,000 tenant farmers have been made the owners of the lands they cultivate, which compose much the greater part of the entire tillable area of the island; and the process is still going on with the practical certainty of the complete abolition of landlordism in Ireland within a few years, when every farmer will own the land he cultivates.

IRELAND BEFORE THE LAND PURCHASE ACTS AND AFTER.

Prior to the passage of the Land Purchase Acts practically all of the land of Ireland was owned by a landlord class who, for the most part, lived in England or on the European continent, where they squandered in luxury the money wrested from the tenants by the most cruel system of rack-renting that could be employed; so that the great majority of the population, in years of the most bountiful harvests, were scarcely able to eke out a miserable existence with what remained after the demands of the landlords were satisfied, while a partial failure of crops, as often happened, was followed by suffering and often by famine, so that thousands died of starvation.

In the early '80's of the last century, following one of the recurrent visitations of famine, an agitation sprung up in Ireland for the betterment of the condition of the tenantry, and was carried on with such vigor that the country was brought almost to the verge of civil war. From this agitation, in large measure, resulted the Land Purchase Acts.

In 1909 Mr. Hugh Sutherland, Associate Editor of the Philadelphia North American, visited Ireland for the purpose of studying

the conditions there under the operation of the Land Acts, with a view to publishing his observations in the form of a series of letters to that journal. These letters have since been published in book form, and would be interesting reading to any one who might desire to investigate the result of the change from landlordism, which is land capitalism, to peasant proprietorship, which is Operative Ownership applied to land. A sentence or two which I shall quote from Mr. Sutherland's book will enable the reader to form some idea of the results that have been realized in Ireland through the principle of Operative Ownership thus applied.

"I have traveled," writes Mr. Sutherland, "for days and days over the countryside which I traversed seven years ago, and have seen peace and plenty where I saw misery and despair. The face of the land has indeed changed, for there are happy homes and gardens where cattle grazed, and industry and contentment where hopeless poverty held its ghastly sway."*

To the lover of social justice who reads Mr. Sutherland's description of the scenes above referred to, and of which what I have quoted only affords the merest glance, the

*Ireland Yesterday and Today, by Hugh Sutherland, p. 126.

thought will naturally occur; if the same thing could be done for industrial labor throughout the world that has been done for farm labor in Ireland by the means described—that of employing the government credit to help the producer to become the owner of the means of production, what a blessing it would be to society.

LAND CAPITALISM AND INDUSTRIAL CAPITALISM.

But why should it not be done? Universally evils of like nature yield to like remedies. The trouble is essentially the same in both cases—the land capitalist and the industrial capitalist, both non-producers, both owning and not using the means of production, but subsisting on the labor of those who do use them. The basis of the claim of the two kinds of capitalists to the produce of labor in their respective industries, is the same, viz.: the ownership of the things that labor works with in the production of wealth—land in the one case, machinery in the other. With so many features in common between the two forms of capitalism, the conclusion seems irresistible that the remedy which proved to be practicable and efficacious in the one case would be equally so in the other—the principle

of Operative Ownership applied by the aid of government credit.

GOVERNMENT AID IN THE UNITED STATES.

In the minds of American readers in particular, if they are familiar with the commercial and financial history of their country, the idea of government aid, whether in the form of credit, subsidies, import duties, or otherwise, to privately owned enterprises for the sake of the public benefits to be derived therefrom, should excite neither surprise nor alarm. No single subject has been so much discussed among the people during the past fifty years as, for instance, that of the protective tariff, which means an indirect tax laid upon the people, of every class, in the form of duties upon imports, with the avowed purpose of aiding those engaged in industrial production to the end that, protected against the competition of foreign manufactures—the products of cheaper labor, with lower standards of living—American industries might grow and multiply, and the nation, as a whole, be thereby benefited. How fully this object has been realized the marvelous growth of the nation, in wealth, in population, and in all the essentials of a nation's commercial and industrial greatness, abundantly at-

tests. The nation has in this way paid an enormous sum of money to build up its industries. The amount paid indirectly by the American people in the form of import duties, in furtherance of the protective tariff policy since the close of the civil war would more than build and equip every tariff-protected mill, factory and workshop in the United States; and yet the people seem very well satisfied with their bargain; for though they may from time to time relax the rigor with which they adhere to the policy of protection, they evince no disposition to depart from it.

The enormous subsidies in the form of land grants given to the railroads at various times present other instances of government aid to privately-owned enterprises with a view to gaining a public benefit. It is fashionable in these times, to denounce as wanton extravagance, or worse, the granting of these subsidies, and in view of the great value to which such lands have risen, it would seem, looking at the grants in question from the view point of the present, that such criticisms were not unjust. But those who were in control of the government when those land grants were made could not see them from the view point of the present. To them the land seemed to possess a poten-

tial value, which could only be realized by means of the railroads. That that view was sound must be apparent when we reflect that then, as now, private capital could not otherwise be found for investment in a railway through a wilderness, with no near prospect of realizing a reasonable dividend on its investment. The land grants resulted in the rapid settlement of the territory traversed by the railways; and millions of farms and homes are now to be seen where formerly the wilderness spread for thousands of square miles. Year after year that erstwhile wilderness adds to the nation's wealth a sum that may be reckoned in hundreds of millions, and to the world's food supply, in excess of the nation's own needs, enough to feed a considerable portion of the population of Europe. Compared to results like these the question whether or not, in some remote time in the future, the wilderness would not have been settled anyway; or whether or not a better bargain might have been driven with the railway promoters, and a lesser quantity of land have sufficed to procure the building of the railways, is of very little importance. The lesson afforded by the story of the land grants lies in the fact that the grants were made to privately owned enterprises in the expecta-

tion of realizing a public benefit; and that that benefit was realized beyond the most sanguine hopes of those governmental agencies through which the grants were made.

In some cases in the United States the government aid to privately owned enterprises for public benefit took the form, in whole or in part, of government credit. Thus, in addition to grants of lands made by the government to the Union Pacific Railway Company in 1862, the government of the United States pledged its credit on the bonds of that company to the extent, on an average, of $25,000 per mile of railway to be built—considerably more than one-half the cost of construction and equipment. In consequence of this obligation the government paid out at various times something over $100,000,000, every dollar of which was afterwards recovered with interest. Thus in the class of cases last mentioned, the public benefits derived from the enterprises in question are due in part to this pledging of government credit, and the expected public benefits were realized without loss to the government.

Similar instances of government aid granted in the form of subsidies of land, bounties on exports or duties on imports; pledges of government credit; and such like

benefits, in many different countries, to privately owned enterprises, for the sake of the public benefit to be derived from the enterprises thereby aided, and which have nearly always resulted in the attainment of the public benefit desired, might be multiplied indefinitely.

EXAMPLE OF INDEMNITY TO GOVERNMENT IN GUARANTY OF BANK DEPOSITS.

In this connection mention may appropriately be made of the scheme for guaranteeing bank deposits recently proposed and in part carried out in the United States.

Following the financial panic of 1907, William J. Bryan, one of the leading publicists and statesmen in the United States and recently Secretary of State in the cabinet of President Wilson, proposed, and strongly advocated in *The Commoner,* a weekly journal then owned and edited by him, that, to prevent a recurrence of such panics, which nearly always occur through sudden and generally groundless fears on the part of depositors in banks, the repayment of deposits in National banks should be guaranteed by the government, and that a fund be established by means of a small assessment against each bank, based upon the amount of its average deposits, out of

which fund depositors should be paid, promptly and in full, in the event of failure of any such bank. Largely through Mr. Bryan's influence the plan was adopted and incorporated into the national Democratic platform of 1908, and at the presidential election of that year 6,393,000 voters gave it their approval. The Democratic party was defeated, however, and with it, for the time being, the plan of government guaranty of bank deposits. The plan, was, however, adopted and enacted into law by the States of Kansas, Oklahoma, Nebraska, Texas and South Dakota, and it is now in successful operation in four of those states. In South Dakota the law was so framed that the bankers are not compelled to operate under it, and they have not done so. That the plan is not a partisan one is evidenced by the fact that of the states above named as having adopted it, two are Democratic and three Republican.

In proof of the success of the system of guaranty of bank deposits the following quotation is made from a letter by George H. Shibley, Director of the American Bureau of Political Research, transmitting to the United States Senate Sub-committee on Guaranty of Bank Deposits a brief history of the system in the states above mentioned.

Commenting on the results of the system Mr. Shibley says:

"This record shows that not only are the people of these states greatly pleased with the new departure—a total absence of personal loss from closed banks—but also that the banks themselves that have been guaranteeing bank deposits have profited by the system, owing to the advantages secured by the increase in the volume of their deposits, and other benefits. This is of vast importance, demonstrating that the system as a whole is a complete success."

Not one dollar has any one of the states which have adopted this system been called upon to pay out of its own revenue, nor is it even remotely probable that they ever will be, for they are amply protected against possible loss by the guaranty fund before mentioned.

SAFETY THROUGH INDEMNITY FUND.

The scheme of government guaranty of bank deposits is of interest in this connection not alone as affording a recent instance of the use of the government credit for the direct benefit of one class of the community with a view to securing indirectly a benefit to the whole community, but also for the unique feature of an indemnity fund, main-

tained at the expense of the class receiving the benefit of the government credit, and having the effect of making the government secure against any practical possibility of loss by failure of any such establishment. The same feature, as stated in an earlier paragraph of this chapter, has been adopted as a part of the plan herein proposed for the use of government credit in aid of Operative Ownership; and there is no reason to doubt that it will produce the same result, of protecting the government against loss, as in the case of guaranty of bank deposits in the states above mentioned.

Although the adoption of the system of guaranty of bank deposits would involve the government credit to a vastly greater extent than would the scheme herein proposed for the establishment of Operative Ownership, it will readily be seen that the latter would be immeasurably more beneficial and far-reaching in its results, since it would effect a complete transformation of the social and economic status of the wage-earning classes, which constitute so large and important a part of the population, changing them from the condition of servants or employees of capitalists, to that of free and independent workers and own-

ers of the capital, in the form of machinery and materials with which they worked.

If we roughly estimate the wage-earning population, including under that head brain-workers as well as hand-workers, employed in the various industries to which the scheme herein proposed may be applied, in the United States, at 15,000,000, or approximately one-half of the total wage-earning population; and if we estimate the number of persons dependent upon each wage-earner as three, including the wage-earner himself, a very conservative estimate, we have a total of 45,000,000 persons who would be directly affected by the system of Operative Ownership. If to this number there be added those engaged in mercantile, professional and such like occupations, who depend in very large measure upon the wage earning classes for their subsistence, and who with their dependents may be roughly estimated at an additional 10,000,000, we shall have considerably more than one-half of the population of the country who would be more or less directly and beneficially affected by the change which Operative Ownership would make in the social status of the working classes. So inter-related are the various classes that compose society in the mass, that whatever affects so large a

proportion of the population advantageously, cannot but affect practically all the rest in the same manner, in varying degrees.

When so large a part of the population of the country are directly concerned; and when the beneficial results, which are reasonably certain to flow from the general adoption of the system of Operative Ownership, affect this part so vitally, it would seem that the pledging of the government credit under safeguards which amount to an insurance against loss, and which in effect is only a pledging of the credit of all the people, upon good security, for the direct benefit of half the people, and the indirect benefit of the other half, would be a very small price to pay for such great benefits.

LITTLE RISK AND GREAT BENEFITS.

But even if we may suppose that the government were not fully protected against loss in the relatively small number of cases (as we shall presently see) in which it would be necessary to resort to the use of government credit; and if we assume that the same percentage of failures should continue to occur in the guaranteed establishments which now annually occur in manufacturing establishments generally of the class

which would be considered acceptable risks by the government (and which failures may be roughly estimated as involving one-half of one per cent of the capital represented in all such establishments), the loss which the government would thereby sustain would be an insignificant price to pay for the benefits to be derived to society, by ending the war of the classes and by the establishment of the industrial relations of the nation upon a permanent basis of social justice, to say nothing of the special benefits to be realized from the establishment of such a system, by the laboring classes for whose direct benefit the government has hitherto done practically nothing.

CONSIDER THE WORKINGMAN.

The people have been taxed enormously in the form of protective tariff duties, and capitalist manufacturers have heaped up prodigious fortunes as one of the results. The national and state governments pay out, year after year, millions upon millions of dollars for the establishment and maintenance of agricultural colleges, agricultural experiment stations, and agricultural whatnots, and the agricultural classes have waxed rich as the result, in part, of such governmental aids. Doctors, lawyers, edu-

cators, engineers, and other professional gentlemen, are educated in state universities maintained at public expense; but nothing is done—that involves any outlay of money by the government—for the laboring classes. Laws and regulations have been passed, it is true, affecting the conditions of labor and the relations between the laborer and his employer; but these are cheap in the sense that they cost the government nothing, for the cost is borne by the employer.

The man who started as a tariff protected manufacturer a generation ago, in a small way, if qualified for his chosen vocation, and if he has met with average success, has lived well, and has retired, or is able to retire, in opulence. The man who started a generation ago, in a small way, as a tariff-protected farmer, if he has attended with reasonable industry and diligence to his business, and has met with average success, has lived well and has retired, or is able to retire, in comfort and affluence, and to transmit to his children a comfortable fortune. But the man who started a generation ago as a tradesman, or as a mill or factory operative, however skillful and industrious he may have been, is still a tradesman or a mill or factory operative; and if he has had but

average success, he has not lived well, but has had a constant struggle with poverty, privation, want, often hunger, always uncertainty, and often worry as to his next month's or next year's subsistence, and is ready to retire, if indeed he has not already retired, a useless, broken down, decrepit old man, dependent on the filial duty of his children—if happily he has any children who recognize the duty—or is fit only for the poorhouse or the grave.

I said, in the last paragraph but two, that the government has done nothing that involves an outlay of money for the benefit of the laboring classes, but that is not strictly correct. It has provided soup-houses and bread lines for their times of unemployment; and for the old age of every worker who needs it—and very many do—it has provided a very imposing poorhouse, and a very hospitable grave—in the potter's field.

It is not contemplated that the government would lend its credit for the taking over by the operatives of any establishment unless, after a rigid investigation such as would be made today by a banking house or underwriting syndicate, preparatory to the flotation of a bond issue, such establishment was found to be in a prosperous con-

dition, and reasonably certain of so continuing. The same conditions which would make such an establishment acceptable to the government for the purpose above mentioned would also make it desirable to the owners to retain, even on condition of consenting to an arrangement for joint operation, and ultimate joint ownership, with the operatives. It is therefore practically certain that the number of capitalists who would suffer themselves to be expropriated rather than submit to such an arrangement would be very small. It may well be believed that a capitalist compelled to choose between giving up a profitable business which will yield good returns for his capital, with a liberal salary for his skill as manager, should he choose to act in such capacity, and the alternative of entering into such arrangements as above proposed, would not hesitate to choose that alternative.

GOVERNMENT CREDIT TO BE SELDOM USED.

In the expropriation of the landlords of Ireland by the aid of government credit, under the Land Purchase Acts, which has been mentioned in the foregoing pages, there was made available for the benefit of the Irish tenantry, a total of approximately one

billion dollars. The land, primarily, and after that, all the fiscal resources of Ireland, were made security against loss to the United Kingdom, whose parliament passed the acts in question. This would make a per capita liability for the whole population of Ireland of approximately $250.

It is improbable that the capitalists in the United States who would choose expropriation rather than joint operation, under the plan herein proposed would represent, in the aggregate of capital involved, more than the amount which was made available to the Irish tenants as above stated; for in their case there was no alternative plan of joint operation and joint ownership possible. The landlord must either sell the land or hold it, taking the chance, in the latter event, of compulsory sale on less favorable terms at some future time. If we assume that the capitalists who might prefer expropriation would represent the aggregate amount of capital above stated, it would make a per capita liability of only $10.00 for the total population of the United States.

The total amount of capital employed in the United States in its three leading branches of industry, manufacturing, mining and railway transportation, according to estimates based upon census reports for

the year 1910 and other official sources, was approximately $40,000,000,000. If from this total we deduct one-fourth, as covering the capital invested in enterprises which, for various reasons, such as smallness of establishments, unsatisfactory financial condition, or the satisfactory nature of the relations already existing between capital and labor in such establishments, would not come within the operation of the plan proposed, there would remain a total of $30,000,000,000, employed in establishments the operatives in which might be desirous of coming, and eligible to come, under the operation of the plan proposed. In order that the aggregate amount to which government credit would be used might amount to the sum above mentioned, of $1,000,000,000, or $10.00 per capita of the population, there would have to be one concern in every thirty of those in a sound financial condition and doing a profitable business, who would prefer going out of business, and turning it over to the operatives, rather than enter into arrangements with the latter for joint operation and ultimately joint ownership, as herein proposed.

It is not reasonably supposable that so large a proportion of capitalists, who as a class have a very high appreciation of the

earning power of capital, and of an opportunity for its safe and profitable investment, would be willing to put themselves in a class with the proverbial individual who "cut off his nose to spite his face." Yet if we suppose that so large a proportion of capitalists as above stated were willing to enter the class of the spiteful party above mentioned, and if we further suppose the per capita liability above mentioned, to eventuate in a total loss, instead of the mere shadowy possibility of loss that it really would be, it would still be an insignificant price to pay for the benefits which would result, directly to a very large percentage of the population, and indirectly to the State and to society in general.

AN EQUITABLE BASIS OF DIVISION.

Frequent use has been made in the foregoing pages of the term "equitable basis" and others of like import, in speaking of an apportionment, between capitalists and operatives, of the profits of their joint operations, and the question has doubtless arisen in the mind of the reader: what would be considered an "equitable basis" for such an apportionment? As the same term will be used again and again, it is desirable that it be clearly understood.

At first blush the question, what is an equitable division of products or profits, would seem to be a perplexing one. It will not prove so, however, if we approach its consideration with the idea of power, as a factor in its determination, banished from our minds; so that we may regard both the capitalists and the operatives as equally free and independent parties, mutually agreeing to combine their resources of capital and labor power respectively, in productive operations. Under such an arrangement it would seem but natural justice that each should share in the profits of their joint operations in proportion to the value of the thing which each had contributed towards its production. An illustration may serve to make this idea more clear.

Suppose A to be the owner of a city lot which lies idle and profitless because he has not the means with which to build on it. B has a sum of money which lies idle for lack of an opportunity to invest it. A and B mutually agree to build a house on A's lot with B's money, and do so accordingly. The transaction is not regarded as a sale on the one side nor a loan on the other, but as a joint investment. Now the property is rented and A and B come to divide the first year's income. The value of A's lot

was $3,000; the cost of the building for which B furnished the money was $5,000. The income to be divided amounted to $800. The value of A's lot being three-eighths of the total cost of house and lot, and the amount of money contributed by B being five-eighths of the total cost, it is obvious that both should share in the profits or income in the same proportions, that is to say: A should receive three-eighths and B five-eighths of the income, or $300 and $500, respectively.

Let us apply the same method of division to an arrangement for joint operation such as has been suggested between capitalists and operatives. Suppose the owner of a manufacturing plant with an investment of $500,000, employing 200 operatives, has entered into an agreement with the latter somewhat as above outlined in the case of A and B, and that at the end of the fiscal year it is found after paying all operating expenses, including depreciation of plant, wages of operatives to the amount of $100,000, and interest on capital at six per cent., $30,000, there would remain as net profits $120,000, which is to be divided between the capitalist and the operatives.

Many will say, that under the rule that each must participate in the profits in pro-

portion to the value of what they have respectively contributed, and the owner having contributed his capital of $500,000, and the operatives $100,000 in wages, which contributions, added together would make $600,000, the owner should receive five-sixths of the profits and the operatives one-sixth. Certain profit-sharing concerns actually divide their profits on that basis, believing it to be a just ratio, but it is fundamentally wrong.

The error in the computation lies in the assumption that the owner has contributed his capital, whereas, in reality, he has only contributed *the use of his capital.* The substance of it remains intact. His plant, stock in trade, etc., are unimpaired, for the wear and tear of the plant are covered by the items of repairs, depreciation, etc., and any diminution of stock is represented in the item of profits. The old adage that one "cannot have his loaf and eat it, too" is and will always be, true; whence it follows that if the owner has his loaf at the end of the year it is certain it has not been eaten; that is to say, if he has his plant and his stock in trade intact, at the end of the year, it is certain they have not gone into the year's business.

Not so, however, as to the labor of the

operatives. That has been expended and is irretrievably gone. A definite part of the span of life that remained to each operative at the beginning of the year has gone into, and is materialized in, the product of the industrial operations. What part, he may not know—but that it is gone admits of no doubt; and, unlike the capital of the owner, does not remain unimpaired at the end of the year.

The true basis of computation in such a case as that above supposed would seem to be, for the capitalist the current rate of interest at the time and place of the transaction, as the value of the use of the capital contributed by him, and for the operatives the current rate of wages, as the value of the labor contributed by them, the profits in excess of these items to be divided between the capitalist and the operatives in the proportion which the value of the *use of the capital* would bear to the value of the *labor expended.* It has, however, been urged that the rate of interest paid for money loaned upon good security is not a true measure of the value of the use of money invested in industrial production, since in the latter form of investment there is no security against loss, the danger of which is affected by many factors not

within the control of the capitalist, and the risk of which varies in different lines of business.

It must be admitted that where the danger of loss is greater in a given industry than when money is loaned upon good security, the rate of interest should be enough higher to cover the additional risk; and as there is no certain rule by which the element of risk may be accurately measured, the rate to be paid to the capitalist as the value of the use of his capital, before the profits could be divided, would be a matter of mutual agreement in each case.

The correct apportionment of the profits in the case above supposed would require, on the assumed basis, that the capitalist who has contributed the use of his capital, worth thirty thousand dollars, or 23 per cent. of the combined contributions of capital and labor, should receive 23 per cent. of the profits in addition to interest; and that labor, whose contribution was 77 per cent. of the combined contributions, should receive 77 per cent. of the profits, in addition to wages.

It is conceivable that in some years, owing to certain extraordinary conditions of the market for certain commodities, or of

business generally, there might be no profits to divide after allowing the agreed rate of interest to the capitalist and the current rate of wages to the operatives; on the contrary, it is possible that in such conditions of the market or of business a loss might result. In such event the loss should be borne by both parties jointly, and in the same proportion that they would have participated in the profits. It would be most unjust to require the capitalist to bear all the loss, if the business were unsuccessful, but only to receive a part of the profits if it were successful.

In the principle that capital and labor should share in the products or profits of their joint operations in proportion to the value of what each has contributed thereto, we have a standard based upon absolute justice, by which the share of each in the joint product may be determined with an approach to mathematical accuracy. The value of the use of capital, the current rate of interest at a given time and place, is almost as easily ascertainable as is the market price of wheat. The value of labor, the prevailing standard rate of wages in a given locality for any trade or class of labor, is almost as easily ascertained. From these data the share of each is a matter

of easy computation, with little room for disagreement or dispute.

In the principle that capital and labor should share equally in the management of their joint enterprise, and in the profits in proportion to what each has contributed to their production, while the losses, if losses result, should be borne in the same proportion, we have all the elements of a true copartnership—joint control, joint profits and joint losses—and that would be the true character of the relations between capitalists and operatives in the first stage of the system proposed—that of joint operation.

From what has been shown in the foregoing pages of this chapter, I believe it may fairly be concluded: (1) that the exercise of the power of eminent domain, in the manner and for the purpose contemplated, involves no violation of the rights of private property; (2) that the use of government credit, in the manner proposed, involves no practical possibility of loss to the government, and is altogether feasible; and (3) that with the government aid made available for the benefit of industrial workers in the manner above explained, its actual use would be seldom required, for the great bulk of capitalist employers would gladly enter into arrangements with their

operatives for joint operation of their establishments, upon an equitable basis, in preference to going out of business altogether.

INTRODUCING THE SYSTEM.

There remains, therefore, to be explained the contemplated plan for the introduction of the proposed system of participation, to which frequent reference has been made in the foregoing pages, by means of which the industrial tool-users may hope to become, first copartners with the capitalist owners, then joint owners, and ultimately sole owners, of the means of industrial production.

Assuming that a law had been enacted authorizing the formation of associations of operatives, in corporate form, with the powers and for the purposes already explained, the first step to be taken by the operatives in any establishment desiring to avail themselves of the benefits of the law, would be to organize themselves into a corporate body, in such manner as the law should provide.

Corporate organization being effected, the Operatives' Association would submit to the employers a proposition for joint operation by the owners and themselves, providing for joint participation in the man-

agement upon a stipulated basis of representation; joint participation in the profits upon an equitable basis of division as between the employers and the operatives, and the right of the operatives collectively to purchase from time to time, or at an agreed time in the future, at a stipulated price or upon a definite basis of valuation, a half interest in the establishment. Should the employers refuse to consider any such proposition, the operatives would have recourse to eminent domain to take over the establishment in the manner already explained. But should the employer be willing to enter into the arrangements proposed, or into negotiations for more satisfactory arrangements, such negotiations might be carried on either directly between the parties in interest, or through the mediation, and with the aid of, the government department or agency having such matters in charge. Should the negotiations fail through the refusal of the employers to agree to terms which, in the opinion of the government department or agency above mentioned, were just and reasonable, resort might be had to eminent domain, as in the case of the employers' refusal to consider any proposition in the first instance. But should the negotiations fail through un-

reasonable demands on the part of the operatives, the further aid of the government would be denied them.

If the proposition submitted to the employers by the operatives should be acceptable; or if a mutually acceptable proposition should be agreed upon through negotiations, which proposition in either event, complied with the requirements of the law, a contract embodying such proposition would be formally entered into and would be thereafter binding upon both parties thereto.

CONSERVING THE PUBLIC INTERESTS.

Only the advancement of the public interests would warrant the government in placing at the service of the operatives the extraordinary powers involved in the plan under consideration. But these interests would be but slightly subserved if the only result of the arrangements above proposed, between employers and operatives, were a larger income for the operatives, in such form that it might all be immediately expended by them in gratifying the desire for better living in the present, without provision for the future; leaving them, in many cases, a prey to their own improvidence, and a possible burden to the public, if later

they should be overtaken by the calamities of unemployment, sickness or a dependent old age. In lending its aid to the establishment of the relations between capitalists and operatives herein proposed, the objects which might be supposed to be in contemplation by the government would be, not alone the immediate improvement in the standard of living of the operatives, but also the guarding of them, in the future, against the sufferings incidental to unemployment, sickness, or infirmity, and of relieving the public from the burden of caring for them in such sufferings; the gratifying of the workers' natural and laudable aspiration for industrial self-government; and the scarcely less important advantage to society, of the more general diffusion of wealth, which the general adoption of Operative Ownership, in whole or in part, would involve.

To secure these advantages and insure that the objects of the government should not be defeated, it would be advisable that the law in question should provide, as a condition of the right of the operatives in any establishment to organize in corporate form, and to avail themselves of its provisions, that such organizations should provide in their charter or articles of associa-

tion, that a definite portion, not less than one-half, of the share of the profits earned by the operatives, in excess of ordinary wages, should be paid to the association for their use, and should be placed in a common fund or funds for the purpose of providing the means of payment for the interest in the establishment which, under the agreement before mentioned, must be transferred to the operatives collectively, from time to time, or after a definite period, and for various other purposes of mutual benefit.

A JOINT OPERATIVE BOARD.

For the successful working out of the plan in contemplation for joint operation, the agreement entered into between the owners' corporation and that of the operatives should provide, among other things, for a Joint Operative Board in which owners and operatives should be equally represented, and of which board the President of the owners' corporation might be *ex-officio* President; that such board should have complete control through a General Manager whom it should select, of all the business of the establishment; and that the net proceeds of the business, after allowing the current standard rate of wages

to the operatives for their labor and the current or agreed rate of interest to the owners for the use of their capital, should be divided between the owners' corporation and that of the operatives, in proportion to the value of what each had contributed to the joint operations; that is to say: the value of the use of the capital as measured by the current rate of interest, or fixed by mutual agreement, on the one side, and the value of the labor, as measured by the current standard rate of wages, or fixed by mutual agreement, on the other.

We may further suppose that such an agreement would provide for the payment of the operatives' wages* directly to each

*In the foregoing pages of this chapter the term wages has been used as expressing the sums of money advanced to the operatives from time to time, weekly, bi-weekly or monthly, the same as if they were working for an employer instead of for themselves and their co-partners. In this sense the term is inaccurate, and is used only for want of a more exact term. *Wages,* as that term is ordinarily used and understood, is the recompense paid by an employer to an employee for labor performed by the latter. The term, therefore, implies the existence of the relation of employer and employee. But that relation is incompatible with that of co-partnership, which is the real relation which would exist between capitalists and operatives in the plan herein described. In the ordinary business co-partnerships with which we are familiar, it is not unusual for each partner or certain partners to withdraw, from time to time, as may be required, stated sums of money to meet their living expenses; but such sums are not, and cannot properly be called wages, since the relation of employer and employee does not exist.

With this explanation, therefore, I shall continue to use the term wages in the convenient, if inaccurate, manner above described.

operative, at stated intervals—weekly, biweekly, or monthly—according to the custom of the industry, or as might be agreed upon; and annually or at shorter intervals if so agreed, a division of the profits might be made, between owners and operatives, when each operative would receive one-half of his share and the other half would be paid into the treasury of the Operatives' Association, and placed to his credit.

OPERATIVES AS JOINT OWNERS.

At the end of the period designated in the arrangements to be entered into between capitalist and operatives, as above explained, after which the operatives should be entitled to purchase a half interest in the establishment, or sooner, if a gradual system of purchase had been provided for in such arrangements, and when the operatives should have made such purchase, they should become joint owners as well as operatives. And since under the law of their organization they would continue to maintain a fund for the further purchase of shares, as well as for other purposes, the operatives would gradually come to own more and more of the stock of the establishment. This result would be the more certain because the operatives would have a double incentive to ac-

quire such shares. They would have the same incentive that the non-operative share holders would have—that of a profitable investment—and the further and stronger incentive of the natural desire of workers to own the tools and materials with which and upon which, they work.

OPERATIVES AS SOLE OWNERS.

The operatives having, therefore, stronger reasons for acquiring the remaining shares than the non-operative owners would have for retaining them, the natural result would be that the operatives would buy the outstanding shares as rapidly as their increasing means and the willingness of the non-working capitalists to sell, would permit. With increased resources, as they should have after becoming joint owners of the establishments in which they worked, and which resources would increase more and more with each new acquisition of shares in the establishment, the operatives would acquire the second half of the shares in a much shorter space of time than was required for the acquisition of the first half.

As between the individual operatives and the Operatives' Association an account would, of course, be kept, showing the value

of each operative's share in the assets of the Association at any time. In the event of the withdrawal—voluntary or otherwise—of any operative from the establishment, which would mean also withdrawal from the Association; or in the event of the death of any operative, such operative, or his legal representatives in case of his death, would be entitled to withdraw his interest in the Association, in such manner as should be provided in the by-laws of the Association.

Thus, while enjoying from the beginning of their arrangements under the plan proposed, larger incomes, steady employment, better conditions of work, a higher standard of living, and industrial peace and independence, the operatives would gradually but surely, and by their own industry, become sole owners of the means of production. The industrial tool-users would have become tool-owners, and to the laborer alone would belong the whole produce of his labor.

LEGISLATION NOT INDISPENSABLE.

From what has been said in the foregoing pages of this chapter in regard to the necessity of legislation to authorize the use of

govenment credit and the power of eminent domain for the taking over of industrial establishments by the operatives therein, where the capitalist owners were unwilling to enter into arrangements for join operation and joint participation in the products according to the requirements of social justice, it is not to be understood that such arrangements may not be entered into voluntarily, between the owners and the operatives in any such establishment, without legislation. On the contrary, such arrangements may be entered into freely by mutual agreement between capitalists and workers, and there are many establishments now in existence in which such arrangements have been put into operation, in various forms, on the initiative of the owners, prompted by a sense of justice, which arrangements, in most cases, have been found to harmonize with the financial interests of the capitalists.

In the following chapters I shall endeavor to show that some such arrangements whether effected by the voluntary acts of employers or by legislative aid, are not only advisable for the promotion of justice as between capitalist and laborer, but are conducive to the financial benefit of capitalists as a class, and will be productive of such

relations between capital and labor as are urgently demanded, if a safeguard is to be found against the encroachments of government upon the traditional rights of private property and private industry, and if the further spread of the Socialistic spirit which inspires such encroachments is to be arrested.

CHAPTER V.

BENEFITS OF OPERATIVE OWNERSHIP.

ALL CLASSES OF SOCIETY BENEFITED.

The benefits to be derived from Operative Ownership, and in a lesser degree, from the transitional stages of joint operation and joint ownership, through which, as we saw in the last preceding chapter, Operative Ownership may be achieved, are manifold, and extend to all classes of society. Paradoxical as it may seem, the capitalist employer who would be compelled in the manner already explained to enter into arrangements with his operatives for joint operation and ultimately joint ownership of the establishment in which they work, if he chose to continue in business rather than suffer expropriation, would be by no means the least benefited of those who would profit by the change.

We have seen in a previous chapter the hostility with which workers in many industrial establishments regard their employers. It needs no argument to con-

vince any reasonable mind that such a state of feeling, known, as it doubtless generally is, to the employer, cannot but have a disturbing, and often a distressing effect upon the mind of the latter. Mr. James Nasmyth, a master-engineer of some prominence in England, about fifty years ago, gave expression to the state of feeling of many employers of labor when he said, in his evidence before the Royal Commission on Trade Unions, that he had retired from business ten years earlier than he would otherwise have done, such was the irritation of having to "walk on the surface of this continually threatening trade union volcano that was likely to burst out at any moment."*

BENEFITS TO THE EMPLOYER.

The position of the capitalist employer who finds himself thus walking on the surface of a volcano, despised and hated by employees who feel no interest in his business other than that of getting the greatest amount of wages for the least amount of work, and who care nothing whether the employer's profits are great or small so long as they get their wages, would seem to

*Report of Royal Commission on Trade Unions, cited in *Co-partnership in Industry,* by C. R. Fay, p. 11.

present a sad contrast to that of the capitalist who, by meeting the just demands and reasonable aspirations of labor by an equitable division of profits and a voice in the management of their joint operations, surrounds himself with workers who, while combining their labor with his capital, regard him as their leader and friend; and who, from their regard for him as well as from their own direct interest in the profits of the establishment, bring to their work the highest degree of care and efficiency of which they are capable. It may well be believed that the peace of mind, and the sense of personal and financial security which the capitalist thus situated enjoys is worth all that the workers would receive as their share of the profits in excess of wages, without reckoning any countervailing financial advantages to be gained by the capitalist through the greater care and efficiency of the workers.

But there would be countervailing advantages of a financial character which would accrue to the capitalist from the increased care and efficiency which the workers, under the system of joint operation, would bring to their work. Speaking of M. Leclaire, who has been called the father of profit-sharing, and whose experience in

that regard has been described and commended by John Stuart Mill in his *Principles of Political Economy,* M. Chevalier, a French writer on Economics, and a contemporary of M. Leclaire, said in regard to the latter's experience as related by himself, that "the increased zeal of the work people continued to be a full compensation to him, even in a pecuniary sense, for the share of profits which he renounced in their favor."*

The literature of co-operation is full of cases which bear witness to the fact that the sacrifices which capitalist employers have made, by sharing liberally the profits of their businesses with their employees, have been more than repaid through the increased efficiency of the workers, besides which, moral benefits of incalculable value have been realized, both by capitalists and laborers. Upon this subject I shall have more to say in a later part of this chapter, under the sub-title of "Increased Efficiency Under Profit-Sharing."

A SAFEGUARD AGAINST GOVERNMENTAL INTERFERENCE.

But more important than all other ma-

*Quoted in *Principles of Political Economy,* by John Stuart Mill, Book IV., Ch. VII., Sec. 5.

terial advantages to be gained by the industrial capitalist through the means of participation and joint ownership, is the security which the general adoption of these measures will give, as against the danger of Socialism, which, as we saw in an earlier chapter, is a real and imminent danger threatening the very existence of the present social order; and the more immediately imminent and almost palpable danger of government regulation of all industry, extending even to the regulation of wages and of prices.

Industrial capitalists are either blind to the significance of events which are of daily occurrence around them, or are possessed of the wisdom of the ostrich, which is said to hide its head in the desert sands when danger threatens, if they fail to realize and to forestall the momentous changes in the industrial relations of society which nearly all well informed observers can clearly discern as almost certain to occur in the near future—which are, indeed, beginning to occur already.

These changes are coming through governmental regulation of private industry. A beginning only has been made in the railway industry, wherein regulative laws prescribe among other details of management,

the number of cars which may be hauled in a train, and the number of men to be employed in handling it; and wherein also government commissions, state and national, fix the rates which railways may charge for the services which they render. Among the disastrous results of this regulation—this crushing between the upper and the nether millstones—may be mentioned the facts that on an actual capital conservatively estimated at $18,000,000,000 to $20,000,000,000, and by some as high as $22,000,000,000, the net operating income of all the railways in the United States amounted, in 1914, to a little less than 4 per cent on the lowest estimate above stated,* and that at this moment (June, 1916) one-sixth of all the railway property in the United States is in the hands of receivers.

What is happening to the railways and other public utilities today in the matter of regulation of prices, will happen to manufacturers tomorrow. As pointed out by Mr. Walter Lippmann, the brilliant young author of *Drift and Mastery,* there is a "consciousness" growing up that is likely to be more troublesome to the manufacturer than the "class-consciousness" of labor of

*Railway Statistics of the United States for the year ending June 30, 1914, by Slason Thompson.

which so much has been written. Mr. Lippmann calls it "consumers'-consciousness," and he shows that it is a power which the great industries will have to reckon with. He further shows that with the coming of "votes for women" this power will increase enormously, for it is the women who do the shopping and who feel most directly the effect of the high cost of living; and it will be through their influence that, by governmental regulation, there will be imposed upon business a maximum of quality and a minimum of cost.*

If industrial capitalists would avert from themselves the fate that has come to the railways, through the tyranny of the majority finding expression through governmental regulation, they must place themselves in a position to control governmental activities, in a rightful and legitimate manner, through the ballot. To this end they must associate themselves with labor, with its great voting power so closely that the interests of the worker and those of the capitalist will be identical in character, if different in degree. Experience has proven that this identity of interest is not realized through the wage system. It can only be

**Drift and Mastery*, by Walter Lippman, pp. 72, 73.

realized either through a real partnership between capitalist and laborer, as in joint operation or joint ownership, as described in an earlier chapter, or by the physical identity of capitalist and laborer, as in the case of complete Operative Ownership. There is no danger that the number of men to be employed in operating a threshing machine nor the price at which the farmer must sell his wheat, his beef or his milk, will ever be fixed by law, because the farmers are strong in voting power, and would quickly defeat any political organization that would attempt to trench upon their legitimate rights of property. And the same power, the same security, and the same immunity from undue governmental interference, would appertain to industrial capital under the system of joint operation and joint ownership, as proposed in the foregoing chapter. I shall have occasion to refer further to voting power as a means of conserving the legitimate rights of property, in a later chapter.

If the operatives are not to be allowed to participate in the management of industry, the time will come when the State will participate in its management and will itself determine the extent of the participation.

If industrial operatives are not to receive

an equitable share of the produce of their labor, there will come a time, as in the case of the railways, when wage regulation and price regulation will leave but small profits for the owners to divide.

The prevention of these conditions through the power which capital allied with labor, in the manner before described, would be able to exert upon government, would more than compensate for any sacrifice of profits, through the participation of labor therein, which it would be necessary for capital to make, and should prompt every far-seeing capitalist to labor for the general adoption of the system hereinbefore proposed.

BENEFITS TO OPERATIVES.

The most direct benefit that would result from the adoption of the plan proposed would, of course, be that which would accrue to the operatives. Even in the first stage of the transition from wage-capitalism to Operative Ownership, that of joint operation, the income of the operatives would be very greatly increased, as compared with their wages under the system of wage-capitalism, even assuming the labor efficiency per man to remain the same, while in the second stage of the transition, that of joint ownership, the income of the oper-

atives as compared with their wages under the regime of wage-capitalism, would be still further increased by the earning of their capital; and in the final stage of the change, that in which complete Operative Ownership would be realized, their income would include the entire profits of the business.

GREAT INCREASE IN LABOR EFFICIENCY.

But the labor efficiency of the operatives, man for man, would not remain the same under joint operation or joint ownership, as it is under wage-capitalism. There would be a new and a vastly stronger incentive to labor efficiency than it is possible to have under capitalism—the incentive of a direct personal interest by every operative in the product of his labor. The result of such an incentive would be a better quality and a greater quantity per man of the finished product, as well as greater care of machinery and plant, and greater economy of materials, than it would be possible to realize by the incentive of mere wages.

There is, of course, a limit to possible labor efficiency in the physical endurance of the worker. Within this limit, however, the efficiency of the worker is determined chiefly by the factors of incentive and train-

ing. Indeed the effectiveness of training depends in large measure, as we shall see later, upon the incentive of the worker to receive training. It is incentive which makes the labor of the free man, working for wages, three times as efficient as the labor of the serf. Upon this subject, Herbert Spencer, the renowned English sociologist and philosopher, says:

"Along with the negative cause for the relaxation and abolition of serfdom there is a positive cause—the unfitness of the serf for productive purposes. Most incentives which make a citizen an effective working unit are not operative upon him under a regime which represses all initiative and furnishes no stimulus to energy. . . . In Austria the labor of a serf is stated to have been equal to one-third of that of a hired man. Verifications, here lacking, will, however, scarcely be needed by one who watches the doings of men among ourselves who are employed by vestries and kindred authorities in road repairing and cleaning. They listlessly wield their picks and shovels for two or three minutes and then stand up to rest and gossip for five."*

But if the labor efficiency of the free la-

*Principles of Sociology, Sec. 807.

borer as compared with that of the serf has been greatly increased by the incentive of the personal gain to be realized by the laborer, the efficiency of the free laborer has been still further increased by the added incentive of participation in the profits of his labor, in addition to his wages, in those establishments in which profit-sharing has been put into operation, even though the laborers' share in the profits has been small as compared to the share which they would receive under the plan of joint operation proposed in the last preceding chapter.

The incentives to labor efficiency under the system of profit-sharing—where the workers' share of the profits is of a substantial character, and not a mere pittance designed to serve as an insurance against strikes—though lesser in degree, are similar in kind to those of Operative Ownership and the transitional stages of joint operation and joint ownership, through which, as we saw in an earlier chapter, that system, in its completeness, is ultimately to be achieved. The beneficial results, therefore, which the experience of workers under certain forms of Labor Copartnership would warrant us in assuming as likely to be realized in these stages, would flow in even greater degree from Operative Ownership.

INCREASED EFFICIENCY UNDER PROFIT-SHARING.

Of the effects on the workmen produced by participation in the profits under the capitalist system, Professor Sedley Taylor, in his work on profit-sharing, says: "The increased activity of the workman, his greater care of the tools and materials entrusted to him, and the consequent possibility of saving a considerable part of the cost of superintendence, enable profits to be obtained under a participating system which would not accrue under the established routine."

In summing up the results of profit-sharing as shown in several establishments mentioned by Mr. Taylor, that writer says:

"The benefits accruing from participation successfully practiced may be thus summed up. It furnishes to the workman a supplementary income under circumstances which directly encourage, or even by a gentle compulsion actually enforce, saving; and by associating him in a very real sense with his employer it arouses aspirations from which great moral improvements may be confidently anticipated. The employer, besides sharing in whatever surplus profits are realized by the more efficient labor which participation calls forth,

obtains the boon of industrial stability and the support of a united corporate feeling elsewhere unknown."

The expressions above quoted from the work of Mr. Taylor are typical of innumerable others which might be quoted from workmen, employers and investigators who have published the results of their experience or observation in regard to profit-sharing, which expressions may be found abundantly in the literature of co-operation. In the cases of profit-sharing which have elicited the expressions referred to, the share of the profits falling to the workmen generally ranged from ten to twenty per cent. on the ordinary wages; but it often fell below the former figure, and rarely exceeded the latter. The increased efficiency of the workmen under the stimulus of participation has been variously stated at from fifteen per cent. to thirty-three and one-third per cent. of their former efficiency.

When it is said that the incentive of profit-sharing has increased the efficiency of labor by one-third as compared with the ordinary wage-system, it will be recognized as a conservative statement by any one who has ever been in a position to know the feeling prevalent among industrial operatives

generally, in regard to the result to themselves and their class of working up to their full capacity.

FALLACIOUS NOTIONS ABOUT INCREASE OF OUTPUT.

The fallacious notion still prevails very generally among workmen, as it has prevailed from the beginning of the factory system, that any material increase in the output of a machine or in the product of a man's labor would result in throwing other men out of work. Notwithstanding the efforts of many leaders among the laboring classes to correct this erroneous notion it still prevails to a very great extent.

This notion prevails more generally in Europe than in America, and in England more than any other industrial nation of Europe, and its results are most disastrous to the prosperity of the country. In his book, *The War of the Classes,* Jack London, a Socialist writer of great popularity, and one whose sympathy with the laboring classes cannot be doubted, says that the English laborer today is starving because he is not a scab. He practices the policy called "ca'canny," which means "go easy." In order to get most for least, he performs, in many trades, but from one-fourth to one-

sixth of the labor of which he is capable. As an instance of this, Mr. London mentions the building of the Westinghouse Electric Works at Manchester. The British limit of work for bricklayers was 400 bricks per day per man. The Westinghouse Company brought over a driving American contractor, assisted by several driving American foremen, and the English bricklayer quickly attained an average of 1800 to 2500 bricks per day.*

Nor is America free from the practice of "ca'canny" or, as it is called here, "soldiering." On the contrary, the wide prevalence of the practice in this country is attested by many writers whose means of observation and experience qualify them to speak with authority on this subject.**

MOST FOR LEAST AND LEAST FOR MOST.

The same impulse which prompts the employer to exact most for least evokes on the part of the workman the counter-impulse to give least for most, hence he soldiers, giving only a part of the efficiency of which he is capable. With the motive for soldiering removed, and the incentives of self interest and mutual regard freely operating

*_The War of the Classes_, p. 136.
**The Social Unrest, by John Graham Brooks, p. 10.

upon workmen and capitalists, it is easy to see that the efficiency of the workmen would be very greatly increased. This means that with the same capital, the same building space, the same operating expenses, the output of the plant would be largely increased, which increase, except the cost of the additional raw material, would practically all go to increase the profits, which in many cases, we may well suppose to be more than doubled thereby. And if the productive efficiency of the operatives were largely increased by the incentive of profit sharing in the form described by Sedley Taylor, where the workers' share of the profits amounted to only from ten to twenty per cent. of their wages, without any voice in the management, we may well believe that the limit of efficiency would be attained under joint operation and joint ownership, as herein proposed, with the greater share of the profits which would fall to the workers under that system.

SCIENTIFIC MANAGEMENT.

Hitherto, in this chapter, in speaking of labor efficiency, I have had in mind the efficiency attainable by the ordinary methods of management and operation which have been in vogue with only slight varia-

tion since the beginning of the factory system.

Within the last few years there has been discovered what may be called a new science, the science of management, or, as it is sometimes called, "Scientific Management." The fundamental laws of this science were discovered by Frederick Winslow Taylor, and are being developed by him and a host of his followers. This science, although still in its infancy, promises that with little or no additional investment of capital in machinery and equipment, and without any greater expenditure of physical energy, the productive efficiency of human labor will be greatly increased, the increase amounting, in some occupations, to from one hundred to three hundred per cent.

That this new science will work a revolution in industrial production comparable in its results to that which was produced by the change from hand labor to machinery, is confidently expected. But the new system is meeting with vigorous opposition from labor organizations, who see in it a means to be used by capitalists for "speeding up" their employees, so that to gain a small advance in their wages they will largely increase the output, and cor-

respondingly increase the capitalists' profits on their labor. Nor are the suspicions of the labor organizations wholly without foundation; for many of the capitalists who have adopted the system have begun by taking for themselves the lion's share of the increased profit.

As bearing out this view we may take for example, one of the cases described by Mr. Frederick Winslow Taylor as showing the increased efficiency to be realized by the new system—that of the ore-handler mentioned at page 44 of his book, "*The Principles of Scientific Management.*" The ordinary day's work of the ore-handler under the old system was 12½ tons of ore, for handling which he received $1.15. Under the new system he handled 47 tons per day. For handling the additional 34½ tons he received the additional sum of seventy cents—two cents per ton. It was worth nine and one-fifth cents per ton to handle the ore, else the employers would not have paid that price ($1.15 for 12½ tons). The handling of the additional 34½ tons therefore was worth $3.11; of this amount the employers paid the laborer 70 cents and kept for themselves $2.41.

But whether the objections to scientific management under the capitalist system

are well-founded or ill-founded, they could not be urged under a regime of Operative Ownership. A man working for himself would welcome the aid of any one who could show him how, without any additional labor or expense, he could double or treble his output.

Scientific management of industry is essentially the same as scientific farming applied to agriculture. The government expends millions of dollars annually to teach farmers how to conduct their agricultural operations more profitably, and the farmers welcome such aid, knowing that there is no one standing over them to seize three-fourths, nor any other part, of what they may be able to gain by the adoption of scientific methods. In like manner operative-owners, knowing that there would be no capitalist employer to grab 75 cents out of every dollar that they might produce by the increased efficiency which comes of scientific management, but that it would be all for themselves, would be quick to adopt the new system.

CHEAPENING OF PRODUCTS.

It is not to be supposed, with the general adoption of scientific management, and the greatly increased output per man and per

machine which would result therefrom, that the price of commodities would not be reduced. Every substantial improvement in labor saving machinery whereby the cost of production has been materially reduced, has resulted in a reduction of the price to the consumer, as well as increased profit to the manufacturer. The like result would doubtless follow the general adoption of scientific management. Such general reduction of prices of manufactured commodities would result in a material reduction of the cost of living, and thus the operative-manufacturer would gain at both ends—lower cost of living at one end, and increased income at the other.

Another benefit to the workingman, second in importance only to that of the increased income which would result from Operative Ownership, would be certainty and steadiness of employment. Under wage-capitalism, as we have seen, if the owner cannot run his plant at a profit, as sometimes happens in times of business depression, he will close it down, throwing the workmen out of employment, and often causing great suffering and want. Under Operative Ownership, partial or complete, this would not occur. The wider margin of profit which, as we have seen, the in-

creased efficiency to be attained under this system would enable establishments operating under it to realize, would enable such establishments to reduce prices to a point at which there would be no profit under the capitalist system, and still leave them a profit. There is no economic law better recognized, or more universally applied than that the lowering of prices tends to stimulate demand. Capitalists, however, when times are dull, and there is a slackening of demand for their products, prefer to wait, with closed shops, until the demand is restored by scarcity of the commodity produced, rather than to stimulate that demand by temporarily sacrificing profits.

The farmer, when he finds at the end of the year that his farm has not yielded him a profit, does not dismiss his hands, sell off his stock, and let his fields lie fallow, and his pastures grow up in weeds, until prices of farm products rise through scarcity of supply. He rather cultivates his fields more assiduously, and economizes more strictly, than before, determined to realize a profit or minimize his loss by increased diligence and economy, hence there is no unemployment question among farmers. In like manner the operatives, whether as sole owners or as joint owners with non-working capi-

talists, having regard to the employment of their time to the best advantage possible, rather than to waste it in idleness, would be prompted to continue the operation of their plants, and if necessary sacrifice a part of the profits, in order to stimulate a demand for their products.

UNEMPLOYMENT PROBLEM SOLVED.

According to a survey of unemployment covering fifteen of the principal cities of the United States, made by the Metropolitan Life Insurance Company of New York for the United States Department of Labor, in the Spring of 1915, 11.5 per cent. of the wage-earning class were unemployed, and 16.6 per cent. only partially employed, in those cities. This was during a period of extraordinary business depression, and it may fairly be assumed, was a considerably greater percentage than would be either partially or wholly unemployed under normal conditions.

Under the influence mentioned in the second preceding paragraph, namely: the probable desire of operative owners to run their plants at a reduced profit, rather than close them down, which influence would be operative in time of business depression; and with the greater purchasing power and

greater demand for commodities which the increased incomes of the working classes would give them under the system of Operative Ownership, in any of its stages, the unemployed labor of the country would be quickly absorbed in supplying the increased demand, and the problem of unemployment, so far as those who were not physically incapacitated for work were concerned, would be, in large measure, solved.

As to those who might become incapacitated by accident, sickness or old age, they would be provided for through their shares in the mutual benefit fund of the operatives association mentioned in the last preceding chapter, whether used as direct insurance or as a fund with which to carry outside insurance against such contingencies; while in case of retirement or withdrawal of any member from the operatives association at the close of his industrial career, such member's interest in the establishment would have a value which would enable him to spend his declining years in comfort and leave a substantial sum with which to provide for his dependents, at his death.

It is not pretended, however, that this nor any other means will ever utterly abolish poverty. While human nature endures

there will be improvident, lazy, unthrifty and vicious individuals, as well as some who will be naturally deficient and dependent through no fault of their own. The Master spoke no parable, but an everlasting truth, when he said: "The poor ye have always with you." In so far however, as people possess the ability and the inclination to help themselves, poverty will be abolished by Operative Ownership. Those who lack these qualities will be poor and dependent under any social system that can be devised.

BENEFITS TO THE STATE.

The State also, in its governmental capacity, will benefit through the system of Operative Ownership by the lessening of the cost of government. That poverty often leads to crime is a proposition which scarcely needs to be supported by proofs beyond the facts of daily occurrence under the observation of those who are in a position to note the things that are happening around them. The persons of whom we daily read as perpetrators of crimes against property, such as theft, robbery, burglary, and the like, are not, generally speaking, persons who have the means of obtaining a livelihood in an honest way. Even crimes

against the person are in no small degree traceable to poverty. Observers of social conditions uniformly attest that one of the most frequent causes of drunkenness among the working classes is the hard, discouraging conditions under which they live, among which conditions are low wages, harsh treatment, uncertainty of employment and the general helplessness and hopelessness of their situation. The effect of these conditions is to produce, in those who suffer from them, a feeling which finds utterance in the often-heard expression: "a poor man has no show." Such persons often come to regard themselves, and not wholly without reason, as the victims of social conditions for which society is responsible, and a feeling of resentment against society takes possession of them. A man in such a state of feeling is only restrained from the commission of crime by fear of the consequences. Often this fear is overcome and crime results. If, as often happens, such a person takes to drinking and becomes a drunkard he is prone to the commission of that long train of offenses against the law which flows from drunkenness.

When Henry Ford, the head of the Ford Motor Company which inaugurated at the

beginning of 1914 a profit sharing scheme by which its employees received a share in the profits, amounting to from 50 to 100 per cent. of their ordinary wages, was testifying, about a year later, before the United States Commission on Industrial Relations, he said, concerning the effect of the change as affecting the habits of the men in regard to sobriety: "Police justices say, where Ford employees, recognized by their badges, were almost daily seen in the prisoners' dock, up to a year ago, since January, 1914, they have been noticeably absent, and are rarely among the unfortunates brought to justice."

In its report to the Chicago City Council, the Commission on Crime appointed by the first named body, after a thorough investigation, showed that, in the language of the Commission:

"The pressure of economic conditions has an enormous influence in producing certain types of crime. Unsanitary housing and working conditions, unemployment, wages inadequate to maintain a human standard of living, inevitably produce the crushed or distorted bodies and minds from which the army of crime is recruited. The crime problem is not merely a question of police and courts, it leads to the broader problems

of public sanitation, education, home care, a living wage, and industrial democracy."*

Prosperity begets in the average man a feeling of pride and self-respect which exercises a deterrent influence as against all those things of which society disapproves, and practically all offenses against the state come within this category. The prosperous man, too, is more readily and more frequently brought under religious influences. The poor man and his family often feel uncomfortable, with their shabby clothes, among their better dressed neighbors who attend church services, hence they stay away. Religious influence is a powerful factor making for better citizenship. No man in any civilized land today can be true to the principles of his religion, whether Jew or Christian, Protestant or Catholic, without being a good citizen, for the essentials of good citizenship are included in the essentials of every numerically important religion to be found in Christendom.

BENEFITS TO SOCIETY.

In a more immediate sense, however, Operative Ownership and the transitional

**Report of City Council on Crime,* Summary of Findings. Sec. 14, p. 12.

stages of joint operation and joint ownership with capital before mentioned as leading to the ultimate achievement of that system, would benefit the state by ending the class struggle which, almost from the birth of wage-capitalism, has been the invariable result of the attitude of the last named institution toward the laboring classes. With the general adoption of Operative Ownership the relation of employer and employee in industrial establishments would be abolished, class warfare would end, and there would be ushered in an era of industrial peace.

It will be readily seen that any system which would have the effect of materially increasing the income of the laboring classes, which constitute so large a portion of the community, would benefit all other classes in the community who directly or indirectly minister to the wants of the former. The physician, the dentist, the lawyer, the artist, the newspaper publisher, the architect, the dressmaker, and the innumerable other trades and professions among which the working classes spend their incomes, whether for necessities or luxuries, would themselves have their incomes increased by the distribution among them, in exchange for the service or com-

modities which they should render or supply, of the increased incomes, or a substantial part thereof, of the working classes, now become owners or partners in the various establishments in which they worked; and thus the prosperity of the working classes would mean the prosperity of practically all other classes of society.

Closely approaching, if not indeed exceeding, in importance, the benefits to be derived to the working classes from Operative Ownership, are the benefits to be derived to society in general through the general diffusion of wealth involved in the adoption of the system of Operative Ownership. It is a matter of frequent observation and comment that the most serious menace to the well being of society, and sometimes it is even said, to the perpetuity of the Republic, is the unprecedented concentration of wealth in the hands of a relatively small number of persons, which has taken place within the past quarter of a century. This menace is generally supposed to lie in the prodigious power which wealth, thus concentrated, gives its possessors.

No less real is the danger from the opposition which such concentration of wealth has called forth. Legislative bodies, whose members, consciously or uncon-

sciously, have absorbed, in varying degrees, the spirit of Socialism with which society is permeated, lending a ready ear to the popular clamor against all manner of "big business," have placed in the statute books a variety of laws of a repressive and regulative character, which trench upon the traditional rights of private property in ways which affect the fundamental principles upon which rest the title of the workman to his cottage no less than the title of the millionaire to his palace.

With the general diffusion of wealth involved in the system of Operative Ownership, making every operative a capitalist, the process of concentration of wealth in the hands of a few would cease; and the wealth already so concentrated would in time become diffused through the operation of natural forces. For though the adage "it is but three generations from shirt sleeves to shirt sleeves" is not to be taken literally, it still contains an element of truth. As a property owner and tax-payer, there would come to every operative-owner a sense of responsibility and of the sacredness of the rights of private property which would operate to restore that institution to the position which it held in the estimation of civilized society from the ear-

liest ages. Thus while Operative Ownership would tend to prevent the accumulation of collossal fortunes, it would tend to restore and safeguard the rights of property in general, which rights of late years have tended more and more as time went on to become an uncertain quantity. Next to the emancipation of labor the restoration and conservation of the rights of private property are perhaps the greatest benefits which Operative Ownership could render to society.

CHAPTER VI.

DISAPPEARING RIGHTS OF PROPERTY.

CONSERVATIVE TENDENCY OF OPERATIVE OWNERSHIP.

In the last foregoing chapter I discussed the advantages of Operative Ownership to the capitalist, to the operatives and to the State. I touched briefly, also, upon the benefits to society at large. But the greatest advantage to accrue to society in this general sense, from the system of Operative Ownership has scarcely been mentioned. It is that of conserving what remains, and of restoring what has been lost, of the traditional rights of property which have come down to us through immemorial ages, but which, within the last generation or two began to be encroached upon by radical legislation, and are today rapidly disappearing before the spread of Socialistic principles which daily find expression in new forms of governmental activities which exemplify a very pronounced tendency to enlarge the powers of government and to contract the rights of the individual,

more especially in regard to the rights of property.

To the men, and they are numbered in many millions, who have neither property nor hope of acquiring it under the regime of wage-capitalism, the term property, or the thing which it represents, has little sacredness. The law forbids them under penalty of imprisonment, to take or destroy the property of another, therefore they refrain from doing so. But as to what the law itself or its representatives may do with it they are little concerned. If they can be made to believe that by confiscation, or by certain forms of taxation, or of governmental control which are equivalent to confiscation, they and the class to which they belong will be benefited, while the owners, whom they are taught to regard as their exploiters, and the exploiters of their class, will suffer, they are more than likely to favor them and to aid them. But change those millions of propertyless men into property owners, as would be done by the general adoption of Operative Ownership, and there would be multiplied millions of property owners to whom the terms "property" and "rights of property" would have a meaning such as they have never had before to so large a proportion of the popula-

tion of any country, and a sacredness such as no legislative body might venture to violate with impunity.

That the reader may better understand the manner in which Operative Ownership will operate to restore and conserve the traditional rights of property it is necessary that some space be devoted to an examination of the nature of property and of the rights which appertain to it in civilized society, and in particular under the constitution and laws of the United States. Also the means must be examined by which these rights have been impaired, and by which their further impairment or destruction is threatened through the activities of government, in the face of constitutional safeguards designed by the founders of the nation to set a limit to the powers of the government in its relation to the individual, and to preserve inviolate the personal and property rights of the individual as against the activities of government beyond that limit.

THE RIGHTS OF PRIVATE PROPERTY.

The term Property, in the sense in which it will be most frequently used in this chapter, signifies the "right of ownership in external things." In another sense, and one

in which it is most commonly used in relation to everyday affairs, it signifies the thing owned. The rights of property as defined by Blackstone, the famous English commentator, consist in the free use, enjoyment and disposal of one's acquisitions by the individual subject (or citizen), without any control or diminution save only the law of the land,* and the control which may be exercised by law, having due regard to the natural rights of the individual, is limited to the necessities of the State in the performance of its governmental functions.

Law writers are not in accord as to the origin of the right of private property—whether it had its origin in the laws of society or in the law of nature which antedated those of society. But whatever may have been the origin of the institution of property it is certain that the rights which appertain to it now are, within certain limitations, subject to control and regulation by law. These limitations consist in the United States, of certain restraints imposed by the people, speaking through their national and state constitutions, upon their state and national governments, and designed among other things to safeguard the

**Commentaries,* Book II, Ch. 1.

rights of private property against any governmental action which might operate to impair or destroy those rights without compensation to the owner. These restraints, and the manner in which they are evaded by the government in its sovereign capacity will claim a considerable share of the space which I shall be able to devote to the subjects to be discussed in this and the next following chapters.

GOVERNMENTAL GREED OF POWER.

There seems to be something in the nature of sovereignty which produces in the sovereign a certain greed of power and of the things that make for power in various forms. Another quality manifested no less by popular than by monarchial sovereigns, is a disposition to ignore or disregard the rights of the individual subject or citizen, when the recognition of those rights would operate to impede or prevent the enlargement of the sovereign power. Anciently, in monarchial forms of government, the King was the sovereign, and he exercised despotic sway over all his subjects. Yet even in an absolute monarchy there were certain rights which belonged to the subjects, and which the sovereign might not violate with impunity.

This was the case in the reign of King John of England, who had gone to greater lengths than his predecessors in violating the hereditary rights of the nobility of the realm, until the latter, assembled at Runnymede in the year 1215, forced from the King the instrument known as the Magna Charta, or Great Charter of Liberties, whereby the King, for himself and his successors, solemnly agreed thenceforth and forever to observe and respect certain designated rights and privileges of the nobility and free yeomanry of the realm. So lightly, however, were these promises held, and so easily forgotten when the occasion arose to evade or disregard them, that the successors of King John have, on numerous occasions, been called upon by their subjects to reaffirm them.

Here in the United States, as in all other real republics, the people are the sovereign, and rule through their legally constituted governmental agencies. But though we have dethroned the king, and the sovereign People rule, the change, so far as the rights of property of the individual are concerned, is one of form rather than of substance. As the king was anciently supposed to reign by divine right, we in America have attached much the same attribute to the

sovereign People, by our general acceptance of the maxim "*Vox Populi, Vox Dei*" —"The voice of the People is the voice of God." Anciently it was a maxim that "the King can do no wrong." In these days and in the United States the idea that the People can do no wrong finds very general acceptance.

In their greed of power, their inclination to extend their influence and activities, and their readiness to ignore the rights of the individual, the sovereign People show their most striking resemblance to the sovereign King of ancient time, and forces upon the mind of the observer the conviction that a sovereign is a sovereign the world over, and does not change its nature with the passage of time, but retains, even in America, all a sovereign's proneness to forget the limitations of its legitimate power, and the rights of the people in their individual capacities.

The sovereign people of the United States in their constitution, which is the Great Charter of the liberties and of the property rights of the individual citizens, have solemnly declared that no person shall be deprived of life, liberty or property, but by due process of law, that private property may not be taken without

full compensation being made therefor; that no law shall be passed which shall have the effect of impairing the obligations of contracts; and that the equal protection of the law shall not be denied to any person. Nevertheless, so numerous are the devices by which these constitutional guaranties are constantly evaded in the form of laws which enlarge the scope of the ancient sovereign prerogative of taxation, the new prerogative of police power, and the commerce clause of the Constitution that no one who has studied the activities of our government in its relations to the individual citizen can doubt that the royal sovereign of medieval times was no more adept at evading the limitations of Magna Charta than are the sovereign people of America, in their governmental capacity today, in evading the limitations of the Constitution.

FORMS OF GOVERNMENTAL ENCROACHMENT UPON RIGHTS OF PRIVATE PROPERTY.

The forms which governmental encroachments upon the rights of private property and private industry take are chiefly those of taxation, the police power and regulation of interstate commerce. A discussion of these powers and of the manner in which they are being steadily extended by the gov-

ernment in derogation of the rights of private property, sufficient in its scope to give an adequate conception of the danger to the existing social order which the continuing enlargement of governmental powers involves, is scarcely possible within the allotted limits of the present chapter. It is hoped, however, that enough may be said within those limits to warn those who desire the perpetuation of the present social order, with its rights of private property and private industry, that the continued and progressive enlargement of governmental powers, and the corresponding contraction of individual rights, must inevitably result in the complete merging of the latter in the government, which is Socialism.

From time immemorial the right of private property has been recognized as subject to certain rights and powers which are considered to be inherent in the sovereign, and have their origin in public necessity. Among the most important of these is the power to levy taxes for the support of government.

TAXATION.

"The power of taxing the people and their property," says Chief Justice Marshall, "is essential to the very existence of

government, and may be legitimately exercised on the subjects to which it is applicable to the utmost extent to which the government may choose to carry it. The only security against the abuse of this power is found in the structure of the government itself. In imposing a tax the legislature acts on its constituents. This is, in general, a sufficient security against erroneous and oppressive taxation. The people of a state, therefore, give to their government a right of taxing themselves and their property; and, as the exigencies of government cannot be limited, they prescribe no limit to the exercise of this right, resting confidently on the interest of the legislator, and on the influence of the constituents over their representatives, to guard them against its abuse."

"Taxes," said Justice Ingersoll of the Circuit Court of the United States, "are a portion which each individual gives of his property in order to secure and have perfect enjoyment of the remainder. . . . They are the price and consideration of the protection afforded"; and Montesquieu in his famous work, *The Spirit of Laws,* (Book XXXI, Ch. 1) says: "The public revenues are a portion that each subject gives of his

property in order to secure or enjoy the remainder."

"The subjects of every state," says Adam Smith, in that Bible of political economy, *The Wealth of Nations,* "ought to contribute to the support of the government as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. The expense of government to the individuals of a great nation is like the expense of management to the joint-tenants of a great estate, who are all obliged to contribute in proportion to their respective interest in the estate. In the observation or neglect of this maxim consists what is called the equality or inequality of taxation."

The phrase, "according to their respective abilities" as used by Smith in the passage above quoted, would be ambiguous, did he not make his meaning clear by the illustration which he gives, comparing the expenses of government to those of a great estate to which the joint tenants are "all obliged to contribute in proportion to their respective interests in the estate." To apply the illustration more directly to the admeasurement of taxation, we may regard the aggregate of the private wealth of the

nation as one great estate, the expense of the care and protection of which by the government should be borne by the owners "in proportion to their respective interests in the estate."

Upon the authority of the very eminent jurists and philosophers above quoted, than whom there are no others in their respective departments of learning whose views are entitled to greater respect, it appears:

That taxation is the price and consideration which the individual gives for the protection which he receives from the State in the enjoyment of his liberty and property.

That the right of taxation inheres in government as a necessity of its existence, and is unlimited as to amount as the possible needs of government are unlimited.

That all who enjoy the protection of government are morally bound to contribute to its support in proportion to their abilities as measured by the amount of the property or revenues which they enjoy under that protection.

It follows that when taxes are levied upon certain groups or classes of persons arbitrarily, and out of proportion to the amount of property which they own or revenue which they enjoy, with the result that the amount of their taxes bears a higher ratio

to the total amount of taxes levied than the amount of their property or revenue bears to the total amount of taxable property or revenues, they are unequally and unjustly taxed.

The rule in regard to the equality or inequality of taxation as stated by Adam Smith in the passage above quoted from that distinguished writer would seem to conform to the most obvious principles of justice. It was applied in the prevailing forms of direct taxation in the United States from the foundation of the government until comparatively recent times.

Contrary to this rule there have come into vogue of late years certain forms of direct taxation which affect chiefly the wealthier classes, as they were doubtless intended to do, in which no pretense is made of any definite ratio between the amount of property taxed and the amount of the tax.

INCOME TAXES.

Among the most familiar forms of taxation which exemplify a departure from the principle embodied in the maxim of Adam Smith, above quoted, the observation or neglect of which, as he says, determines the equality or inequality of taxation, may be mentioned certain forms of income tax, in-

heritance taxes and taxes on bonds, mortgages, etc.

A tax upon incomes has been held by the Supreme Court of the United States* to be a tax on the property from which the income is derived. When, therefore, property has been taxed, and the income from that property is also taxed by the same taxing power, such income tax is double taxation. So it is also in the case of taxes on mortgages. When, for example, one buys a tract of land, paying a part of the price in cash, and giving a mortgage to secure the payment of the balance, there is no new property or value created, for the mortgage merely provides, in effect, that if the balance of the purchase price is not paid the property shall revert to the seller, or be sold to satisfy the debt. If, therefore, the property is taxed at its full value, and the mortgage is also taxed, there is double taxation to the extent of the tax on the mortgage. So, too, in the case of notes or bonds for the payment of money. They are not property in themselves, but promises to deliver property in the form of money to the payee or holder at some future time. If promises were property we might all be millionaires,

*Dobbins vs. Commissioners of Erie County. 16 Peters, 435.

but if we had to pay taxes on promises we should quickly become paupers.

INHERITANCE TAXES.

The taxing of inheritances, is perhaps, the latest deviation from the principle of proportional taxation which prevailed in the United States during the first century of the Republic. This form of taxation is justified by its advocates upon the ground that the right to inherit is derived from the laws of the State. But this claim is without foundation in reason or in fact. Private property is not the property of the State in any sense, consequently the State has no moral right to take or dispose of it upon the death of the owner. The State does not give the inheritor of property any new rights of property which he did not possess before, but only recognizes a pre-existing natural and moral right. I use the term **natural** in this connection in the sense of "consonant with the characteristic instincts, feelings, reasonings, etc., of human kind; especially of social feelings and sensibilities," as defined by Webster.

It is probable that the laws of descent and inheritance, which in the United States are in the main but a re-enactment of the English Common Law in that regard, had their

origin, not as an act of the sovereign, in granting to the subject some right not previously possessed by the latter, but as a judicial act, deciding which of two or more claimants should be recognized as possessing by virtue of their relations to the decedent, the stronger claim to the right of succession to the possession of his property.

One of the most ancient of the functions that appertain to the quality of sovereignty is the administration of justice. While the common law was still in the formative stage, when it consisted of what Blackstone describes as general customs which "received their binding power and the force of law from long and immemorial usage,"* and before the right of the children or descendants of a deceased parent or ancestor to succeed to the possessions of the latter became recognized as a legal right, the courts or functionaries through whom justice was administered were often called upon to decide between rival claimants as to which had the better right to such possessions. In such cases these functionaries guided by "the characteristic instincts, feelings, and reasonings of human kind," generally decided in favor of the children or nearest

*Blackstone's Commentaries, Book II, Ch. 1, p. 11.

relations as having the strongest claim to the succession, "till at length in process of time this frequent usage ripened into general law."

PROGRESSIVE TAXATION.

The most radical deviation from the principle of proportional taxation with which we are familiar, occurs in the form of progressive taxation; as where property is taxed at a certain rate up to a designated amount in value and at a certain higher rate on the value above that amount, up to a certain other amount, and so on; the rate increasing progressively with every step from each particular class to the next above.

The progressive feature in taxation is at present most frequently exemplified in income and inheritance taxes; but it is susceptible of application to bonds, real estate, money in bank or almost any other form of property. Indeed in view of the growing tendency of legislative bodies to throw the burdens of government more and more upon the rich, without regard to the principle of equality or proportion, it may be expected at no distant day that the progressive feature will be applied to all kinds of taxation.

The most serious vice of the progressive principle in taxation is the facility with which it lends itself to schemes of spoliation and confiscation. The principle of progression once adopted in taxation, there is no measure by which the rate of increase at the various stages of progression may be determined but the arbitrary will of the legislative body or other governmental agency which imposes the tax; and while at one time the action of such a body may be characterized by moderation, it may easily happen that with a change of membership it might be actuated by a spirit radically hostile to the owners of large or even moderately large fortunes, and fix the rate of the surtaxes at such a figure as would amount to undisguised confiscation. That progressive taxation not only is a convenient instrument of confiscation but is the means actually contemplated by Socialists for the confiscation of whatever property of the wealthy classes may chance to escape confiscation when the Socialistic regime shall be ushered in, and the Socialist Commonwealth shall take possession of all the means of production, distribution and exchange, is shown by the following extract from a highly authoritative work by Mr.

John Spargo, who is one of the leading Socialist writers of America:

"Finally," says Mr. Spargo, "it will be possible to adopt measures for eliminating the unearned incomes entirely by means of taxation, such as the progressive income tax, property and inheritance taxes. Taxation is, of course, a form of confiscation, but it is a form which has been familiar, which is perfectly legal, and which enables the confiscatory process to be stretched out over a long enough period to make it comparatively easy to reduce the hardship to a minimum. By means of a progressive income tax, a bond tax and an inheritance tax it would be possible to eliminate the unearned incomes of a class of bond-holders from society within a reasonable period, without inflicting injury or hardship on any human being."*

If it be true as stated by Justice Ingersoll in the language before quoted from that learned jurist, and as recognized by political economists, that taxes are "the price and consideration of the protection afforded" by government to the owner of property, it follows that taxation out of proportion to the protection afforded, or out of propor-

*_Socialism,_ by John Spargo, 2nd Ed. p. 336.

tion to the value of the property taxed, which is the same thing, is without consideration, and is unequal and unjust, to the extent of the excess above the just proportion of taxes which the property should bear.

When the owner of property is taxed at a certain rate on its value or income up to a given amount, and at a higher rate on property or income in excess of that amount up to a certain other amount, and so on, as in progressive taxation, the property bearing the higher rates receiving no more protection than that which pays the lowest rate, such owner receives no consideration for the surtaxes which he is compelled to pay, and his property is to that extent, unequally taxed.

What has been said in the foregoing pages in regard to the principle of proportional taxation and the forms of taxation in which that principle is contravened, must be understood as applying only to taxes levied for the expenses of government in what may be called the normal condition of national affairs. For it is not to be supposed that in the always possible event of conditions arising which might threaten or precipitate some great national catastrophe, involving the rights or liberties of the people, or pos-

sibly the very existence of the nation, the government should be held to a nice balancing of individual rights against national needs. In such a contingency all rules and all theories in regard to limitations of governmental powers must yield, if need be, to that supreme law which may be called the law of national self-preservation.*

GOVERNMENTAL REGULATION OF INDUSTRY.

The most flagrant form of encroachment by the government upon the rights of private property is that of government regulation. We have seen, in the beginning of this chapter, that the rights of property consist in the free use, enjoyment and disposal of one's acquisitions *without any control or diminution,* save only the law of the land. The supreme "law of the land" in the United States is the Federal Constitution, and that instrument expressly forbids the taking of private property without due process of law or without compensation.

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*It is conceivable that such conditions may develop in the relations between capital and labor that, to hasten a readjustment of those relations on a basis of social justice, it may be necessary to invoke the taxing power, as a simpler and speedier, though less just method than the power of eminent domain, for applying pressure to capitalist owners of industrial establishments to induce them to enter into arrangements with their operatives for joint operation, etc., as proposed in the third chapter of this book.

It has been declared by the Supreme Court of Illinois* and other high legal authorities, that when an owner is deprived of any of the attributes of property, he is deprived of his property. Now if in the exercise of government regulation the owner of property is deprived of the free use, enjoyment or control of it without compensation and due process of law, or the value of his property is impaired or destroyed, he is unlawfully deprived of it, and this is what happens, as we shall see, in very many cases of government regulation.

The forms of government regulation with which we are most familiar, (although there are others), are those exercised by the national government under claim of authority derived from the commerce clause of the constitution, and by state governments under what is called the police power of the State.

FEDERAL REGULATION.

The power conferred by the commerce clause is given in the following language:

"The Congress shall have power . . . to regulate commerce with foreign nations

*Ritchie v. People, 155 Ill., 98.

and among the several states, and with the Indian tribes.*

The granting to Congress of the power to regulate commerce with foreign nations was the principal object of the commerce clause of the constitution; and the power to regulate commerce among the several states was regarded by the framers of the constitution as merely supplemental to that power. It was said by Mr. Madison in the Federalist that without this supplemental provision the great and essential power of regulating commerce with foreign nations would have been incomplete and ineffectual, and that with state control of interstate commerce, ways would be found to load the articles of import and export during the passage through their jurisdictions with duties which would fall on the producers of the latter and the consumers of the former.† To prevent such action by the several states was the object of the clause in question. This intention is further indicated by the following clause of the Constitution in relation to the same matter:

"No tax or duty shall be laid on articles exported from any state. No preference

*Constitution of the United States, Art. I., Sec. 8, Par. 18.
†Judson on Interstate Commerce, Sec. I.

shall be given by any regulation of commerce or revenue to the ports of one state over those of another; nor shall vessels bound to or from one state be obliged to enter, clear, or pay duties in another."*

ENLARGEMENT OF GOVERNMENTAL POWERS BY JUDICIAL CONSTRUCTION.

It was never dreamed by the framers of the Constitution, profound and far-seeing statesmen though they were, that the plain and simple words "to regulate commerce . . . between the several states," would ever be tortured into giving Congress the power to control and regulate the production within the several states of articles which might become the subjects of interstate commerce, nor to control the relations which might subsist between persons engaged in such production and their employes, as has been done of late, even to the regulating of wages and of hours and conditions of labor, as well as to a thousand other details of production and distribution, the power to regulate which is claimed and exercised by the national government under the commerce clause above quoted.

But the art of legislation by judicial construction, if not altogether unknown in the

*Judson on Interstate Commerce, Art. I., Sec. 9, Par. 5.

days of the framers of the constitution, had not developed into the fine art that it is today. It is by this means that courts are able to read into laws and constitutions things which the framers thereof never thought of putting into them, and powers which the people never conferred upon their governments, state or national, are assumed by these agencies, and exercised in derogation of the personal and property rights of the people in their individual capacities, in the face of constitutional provisions guaranteeing those rights. Thus it is that the power to regulate commerce among the several states has been expanded so as to bring under federal control and regulation, at the discretion of the government, the means of production and distribution of practically every commodity produced in the United States. For there are few of the products of industry which may not, in one way or another, become subjects of interstate commerce.

THE SHERMAN ANTI-TRUST ACT.

Under this power Congress passed the Interstate Commerce Act, with its numerous amendments under the operation of which the railways have been brought under federal regulation, with the results

which we have seen in an earlier part of this book, and of which more will be said in the next chapter. Under this power also there was passed by Congress a law, which has become known as the Sherman Anti-trust Act, forbidding all contracts or combinations in restraint of trade and forbidding any person "to monopolize or attempt to monopolize any part of the trade or commerce" between any state or territory and any other state or territory.

For years after the passage of this act no serious attempt was made by the government to prosecute any person for its violation. One political party succeeded another in the administration of the government, each in vigorous language declaring its hostility to trusts, yet seeming to realize, under the responsibility of government, that the so-called trusts were a natural and a necessary development of modern industry; that the production of commodities on the scale demanded by modern industrial conditions necessitated large aggregations of capital; that the partial elimination or restriction of competition practiced by these organizations was necessary; and that, if these advantages were to be denied to American industries, the latter would be unable not only to compete in

foreign markets with the products of other nations where industry was not thus handicapped, but would be unable to hold their own in the home market, against foreign competition, unless protected by an excessively burdensome tariff.

The politicians of both parties vied with each other in the bitterness of their denunciation of the trusts, and succeeded in producing such a feeling of hostility toward them that the government was compelled to take action against them under the Sherman Act. A few of the trusts, moreover, had taken advantage of the power of their great wealth to raise prices or to resort to unfair methods of competition, and afforded just grounds for visiting upon those particular trusts the penalties of the law.

One of the most serious faults of the Sherman Law was the vagueness with which certain offences were defined to which it attached severe penalties. What, for instance, would constitute a restraint of trade was largely a matter of opinion, upon which any two persons might well differ. Upon this question even the courts have never been able to agree. Yet, under the Sherman Law, every merchant or manufacturer engaged in interstate commerce

must decide it for himself, and decide it, not according to any recognized standard, (for there is none), but according to the views of the court or judge who may be called upon later to pass judgment on the question. An error of judgment might make his act a crime punishable by heavy penalties, without any intent on his part to violate the law.

VENERABLE TRADITIONS VIOLATED.

From the earliest times of English jurisprudence, (upon which our own is based), a criminal intent has been deemed to be an essential element of every crime. But men have been convicted of crime under the Sherman Act who had no thought that their acts could be of a criminal nature. Shortly after the passage of the act the parties to what was known as the "Wire Rope Pool" consulted Senator Hoar of Massachusetts, one of the framers of the act in question, as to whether or not their manner of doing business was contrary to law. Mr. Hoar, who was a lawyer of exceptional ability, and who as one of its framers, may be supposed to have known the intent and legal effect of the Sherman Act if any one did, advised them, in a very elaborate opinion, that their method of do-

ing business in no way conflicted with the provisions of the Sherman Act. Yet they were afterwards prosecuted by the government and declared to be guilty of its violation.

Capital is notoriously timid. With such a law hanging over them it is little wonder that men of large affairs proceed cautiously and hesitatingly, or omit altogether many legitimate methods of extending their business operations, through fear that their activities may be construed to be "in restraint of trade," and may be visited with disastrous consequences at the hands of the government. Many concerns, though innocent of intentional violation of the law, have been compelled to pay out in their defense, enormous sums, besides which their responsible managers have been subjected to anxiety and humiliation not to be measured in terms of money. To be big and successful seemed to be a sure way of attracting the "regulative" attentions of the government.

REGULATION RUNNING RIOT.

As if the Interstate Commerce Commission, the forty-odd state railway commissions or boards, the Sherman Anti-trust law, and some hundreds of state regula-

tions, were not enough in the way of government regulation of business, we have the new Federal Trade Commission, with powers more far-reaching than those of any other similar governmental agency heretofore established.

This commission is given the broadest inquisitorial powers, and may pry into the private business affairs of any corporation engaged in interstate commerce, and make them a matter of record, as part of their proceedings. While there have not as yet been any judicial constructions as to the full extent of its powers, it is understood that the commission has power under the law, in certain contingencies, to fix the price and the terms of distribution of industrial products. In short, much the same powers which the Federal Reserve Board has over banks, and which the Interstate Commerce Commission has over railways, the Federal Trade Commission has over all other businesses, except these.

CHAPTER VII.

DISAPPEARING RIGHTS OF PROPERTY—(Continued).

THE POLICE POWER.

All the powers, and more besides, which the national government exercises under the commerce clause within the several states in the regulation of industry, the states exercise under the police power. This power may be defined as the power of the state to make and enforce laws and regulations to promote the health, safety, morals, convenience and general welfare of the community. It is declared by the Supreme Court of Illinois* to be an attribute of sovereignty.

When the average person hears mention made of the "police power" he quite naturally supposes it to refer to the power of the police to make arrests, to preserve the peace, and such like functions. But these, as we shall see, are but a very small part of what is comprised in the "police power"

*Chicago v. Bowman Dairy Co., 234 Ill., 294.

as that term is defined by the courts. "We hold," said Justice Harlan, in a recent decision of the United States Supreme Court, "that the police power of a state embraces **regulations designed to promote the public convenience or the general prosperity** as well as regulations designed to promote the public health, the public morals or the public safety."*

MENACE OF POLICE POWER.

It is in the broader sense above mentioned by the court,—in the sense of "regulations designed to promote the public convenience and the general prosperity," that the police power will be discussed in this chapter. For in that sense the police power affects the property rights of the individual citizen more directly and more vitally than does any other attribute that appertains to the sovereignty of the state, except perhaps the taxing power. In the improper exercise of the police power lies the most serious menace to the rights of property which confronts the American property owner today.

To the exercise of the police power as a means of promoting the public comfort and convenience, and the general welfare of the

*C., B. & Q. R. R. v. Illinois, 200 U. S., 561.

state, there is one fatal objection, namely: that it permits the taking of private property for public use without compensation or due process of law. "By this general police power of the state," says Justice Cooley, "persons and property are subjected to all kinds of restraints and burdens in order to secure the general comfort, health and prosperity of the state."

A CREATURE OF THE COURTS.

The term "police power," as also the thing to which the term has been applied, is the creature of the courts in the United States. Neither in name nor in nature, in the sense above defined, did it exist at the time of the American revolution or of the adoption of the national Constitution.

When Blackstone published his commentaries on the Laws of England, a few years prior to the American revolution, the term "police power" was unknown. Among the attributes of sovereignty which he mentions there is nothing which bears any resemblance to the thing to which American courts have given the name of the police power.

The powers embraced in this new attribute of sovereignty, of promoting the public health, the public safety, the public mor-

als, and the general comfort, convenience and welfare of the community, have existed in England from time out of mind; not however as "police powers," nor as attributes of sovereignty, but as ordinary functions of government, to be exercised with due regard for the rights of private property. For while the government, for the general welfare, had the power to take what it would of private property, it could only do so upon making full compensation therefor to the owner.

The first notable case in which the right of the State to take or impair the value of private property for public use, to promote the "public health, the public morals, the public safety or the general welfare," without compensation to the owner, was asserted, was that of Trinity Church in the City of New York.

POLICE POWER *VERSUS* CONSTITUTIONAL GUARANTIES.

In 1697 King William III of England granted a charter of incorporation to Trinity Church, and therein confirmed to the corporation a tract of land adjoining the church to be used for the burial of the dead. In 1823 the corporation of the City of New York passed a by-law forbidding the burial

of the dead in certain territory, which included part of the land held by the church under the charter from the King, and used for the burial of the dead. In a suit in relation to the matter which came before the Supreme Court of the State of New York* it was contended in behalf of the church that the charter from the King was a contract and that it would be broken, contrary to the constitutional guaranty in regard to the inviolability of the obligations of contracts, if the by-law in question should be enforced. Furthermore it was contended that to forbid the use of the land for the purpose for which it had been fitted, at great expense, by the construction thereon of costly vaults by private owners under grant from the church corporation, would be a taking of private property without compensation in violation of the constitution.

In this connection it must be understood that the Supreme Court of the United States, in the famous Dartmouth College Case, in an opinion written by Chief Justice Marshall, probably the most illustrious jurist of American history, had previously held that a charter from the King creating a corporation with definite powers, privileges and duties, was a contract, and any

*Coates v. Mayor of New York, 7 Cowan, 585.

abridgement by the state of the powers and privileges thus granted would be an impairment of the contract within the meaning of that clause of the constitution forbidding the states to pass any law impairing the obligations of contracts.

The result of the litigation, in the Trinity Church case, as tersely stated by the distinguished American social and historical writer, Brooks Adams, was that: "In the teeth of recent precedents, the Supreme Court of the State of New York decided that, under the police power, the legislature of New York might authorize this sort of appropriation of private property for sanitary purposes, without paying the owners for any loss they might thereby sustain."*

The doctrine of the Trinity Church case was adopted by other courts, slowly at first, and afterwards more rapidly, until it has become fairly well established as a principle of American law.

The police power, not resting upon the decision of any single court, but upon many decisions of many courts, with varying views as to what matters come within the scope of its operation, and the extent to which the powers in question should be held

*_The Theory of Social Revolutions,_ by Brooks Adams, p. 89.

to affect the constitutional rights of property, there came to be in course of time such a variety of decisions, representing all shades of opinion as to the scope and limits of the police power, that whatever view the court, in any given case, might choose to take, though flatly opposed to some previous decision involving substantially the same state of facts, it could find not one, but many, precedents to support it.

Thus, it happened that about fifty years after the decision in the Trinity Church case, another case occurred in Illinois under an identical state of facts in all essential respects, save that the charter in the Illinois case had been granted by the State of Illinois instead of by the King, as in the New York case. But here the Court held directly the opposite to the New York decision.

CONFLICTING DECISIONS.

The conflicting character of court decisions in cases involving questions relating to the police power is not to be attributed to the fact that they are rendered in different jurisdictions or by courts affected by varying local influences. The like conflict may be found in many cases between decisions of the same court. Thus a statute of Illinois providing that: "No female

shall be employed in any factory or workshop more than eight hours in any one day, nor more than forty-eight hours in any one week," was held unconstitutional as an attempt to invade the right of private property by legislative power in the disguise of a police regulation.* A few years later another law was passed in the same state providing that: "No female shall be employed in any mechanical establishment, factory or laundry more than ten hours in any one day." Although no question was raised in regard to the difference in the number of hours which a female might be employed, the second law was held, by the same court, to be a proper exercise of the police power, and therefore valid.**

Such conflicts are inevitable when the subject of the decision is a power which rests not upon any constitutional provision or legislative enactment, but upon the uncontrolled discretion of the court in each particular case. Rights of persons or property held at the unlimited discretion of a court are held by a precarious and uncertain tenure. Certainly they are not held with the security contemplated by the framers of the constitution.

*Ritchie v. People, 156 Ill., 98.
**Ritchie v. Wayman, 244 Ill., 509.

CHARGES OF JUDICIAL BIAS.

The judicial discretion which is the life principle of the police power, is become the cause of no little embarrassment to the courts, in the sense that they often find themselves at their wits' end in the effort to reconcile conflicting decisions rendered upon the same question, by the same court, at different times. The long line of decisions which each litigant is able to cite in support of its contention, in any case involving the question whether a given legislative or executive act is void as a violation of the constitutional safeguards of the rights of property and person, or valid as a proper exercise of the police power, brings to the defeated party, and the class which such party represents, the conviction that only the bias of the court could bring it to disregard so formidable a line of precedents. The result of this conviction is that the charge of bias is often made against the courts, on the one side by advocates of "progressive" legislation, and on the other by the representatives of the interests adversely affected by such legislation, and the bias, real or imagined, of the courts against "progressive" legislation as charged by the advocates of such legislation has been made the basis of a demand for the recall of ju-

dicial decisions in cases involving the exercise of the police power.

On the other hand, in refutation of the charge of bias against "progressive" legislation, so far as that charge is made with reference to the United States Supreme Court, Mr. Charles Warren, formerly Assistant United States Attorney-General, published an article in the *Columbia Law Review*, in April, 1913, in which he shows by a careful enumeration and classification of all the cases decided by the Supreme Court during the twenty-five year period, from 1887 to 1911, inclusive, that "out of over 560 state statutes or other forms of State action adjudicated under the 'due process' and 'equal protection' clauses . . . the Court has upheld over 530, it has held invalid only three relating to 'social justice,' and only thirty-four relating to private rights of property."

NO BIAS AGAINST "PROGRESSIVE" LEGISLATION.

Commenting on the showing of the court in the smallness of the number of cases in which the restrictions of the constitution under the "due process" clause were held to apply to legislative acts, Mr. Warren says in his article above mentioned: "The actual record of the Court thus shows how little

chance a litigant has of inducing the Court to restrict the police power of a state . . . in other words it shows the court to be a bulwark of the police power."

In a later article (December, 1913) contributed by the same writer to the same magazine, on the same general subject, he says:

"In other words, in this great and vitally important class of cases the Court has settled the boundary line which separates the end of the police power and the beginning of the Constitutional guaranties, overwhelmingly in favor of the State as against the individual....."

" 'Due process' and the 'police power' both being indefinite terms, the court has exercised a wide discretion in enlarging the scope of both in favor of the State."

It must be admitted, in view of the facts shown by Mr. Warren, that such a litigant as he refers to in the passage quoted above would have very little chance indeed before the Supreme Court.

COURTS INFLUENCED BY PUBLIC OPINION.

"Some one has aptly said that the Supreme Court follows the election returns," writes a contributor to the *Popular Science Monthly;* and in view of the facts shown

by Mr. Warren in the magazine article before mentioned, there would seem to be some warrant for the observation.

Mr. Warren, in a later contribution to the magazine first above mentioned in which he assumed again the role of friend of the court, says:

"The tendency of the present-day mind is unquestionably to tolerate increased restriction of the individual by the state in the interest of the general public welfare. It is highly important, therefore, that the layman should comprehend how far the courts are embodying in their decisions this tendency."

Mr. Justice Holmes of the Federal Supreme Court in delivering the opinion of the Court in what are known as the Oklahoma Bank Guaranty cases,* said: "It may be said in a general way that the police power extends to all great public needs.... It may be put forth in aid of what is sanctioned by usage, or held by prevailing morality or strong and preponderant public opinion to be greatly and immediately necessary to the public welfare."

In these words of Justice Holmes, though but recently uttered, he states a rule which

*Noble State Bank v. Haskell, 219 U. S. 104.

has been applied on several historical occasions in this country.

It means that whenever "preponderant public opinion" demands any specific "reform" or change in the law, the police power of the state may be invoked to accomplish the desired change; and however much private property may be taken, destroyed, or impaired in value, the constitutional guaranties in regard to the rights of private property become dead letters, and the police power, to whatever extent preponderant public opinion expressed in the form of legislative enactments may hold it to be "greatly and immediately necessary to the public welfare," becomes the supreme law.

Many will say this is as it ought to be—that private rights should yield to the public welfare as indicated by "preponderant public opinion" expressed in legislative acts.

But public opinion is variable, uncertain, fluctuating. As a criterion of human rights history brands it as the most treacherous that may be conceived, for it has justified every crime ever perpetrated by the many against the few, with instances of which history teems. It has lit the faggots of intolerance and persecution, and

given countenance to innumerable crimes against the natural as well as the social rights of man. It is only when guided itself by an enlightened sense of justice, and guarded against hasty and unconsidered action, to which human nature is prone, that its judgment, registered according to the forms of law, is entitled to consideration. Very often, however, it is not so guided; and very often also, that which passes for public opinion in a community is merely the opinion of a small but clamourous and aggressive minority of that community. Moreover under the American system of government it is not the function of courts but of legislatures to concern themselves about public opinion. In passing upon the validity of a legislative act the question for the courts to consider is, not "Is it popular?" but "Is it constitutional?" The former question, however, would seem, from the facts shown by Mr. Warren in the magazine article above mentioned, to be the one that is uppermost in the judicial mind.

HOW THE POLICE POWER OPERATES.

The manner in which the police power has operated upon private property has not been by a physical taking in the sense of

acquiring title to or possession of the thing taken, but by imposing some restraint or regulation upon the use of it by the owner, or by imposing upon the owner some duty or obligation with relation to it, which had the effect of destroying or diminishing its value either for purposes of sale or exchange or for profitable use. In a few cases indeed, courts have held that unless there was an absolute taking of property there could be no violation of the constitutional guaranties in regard to private property. But the overwhelming preponderance of authorities reject this view.

Numerous instances might be cited, did space permit, in which, as in the Kansas Brewery Cases* of recent history, property which had been legitimately acquired and legitimately used, and which had paid in the form of taxes for the protection which, in common with all other private property, it was entitled to receive, was by legislative enactment, conformably to the demands of "preponderant public opinion," forbidden to be longer used for the only purpose to which it was adapted, thereby destroying the value of the property, while leaving the owners "the empty husks of title and

*Mugler v. Kansas, 123 U. S., 623.

possession." All this the State, for the general welfare, might properly have done upon making compensation for the property destroyed, which, however, was not done.

THE GRANGE MOVEMENT.

Another notable case of "preponderant public opinion" finding expression in legislative acts and judicial decisions which have operated to greatly enlarge the powers of government over private property is that of the historic "Grange" organization of the early seventies of the last century. This was an association designed to promote the interests of the agricultural classes. By its great numerical strength and excellent organization it was enabled to secure the passage of a number of laws highly favorable to the farming interests, among which were laws regulating elevator charges and railway rates. Out of these laws arose a number of law suits in which the power of the legislatures of the several states to regulate such charges was disputed. These suits are known in the decisions of the Supreme Court as the "Granger Cases."

The question immediately at issue in the Munn case was the constitutionality of a

law of the State of Illinois fixing the maximum rates of storage for grain elevators within the State.

The elevator in question was owned and operated by private individuals, and without any public franchise or privileges whatever, but the Court held that the Legislature had power nevertheless, without violating any of the provisions of the constitution in regard to the rights of private property, to fix maximum rates for such conveniences.

The ground upon which the court based the right of governmental regulation was that the elevator business is a public employment and clothed with a public interest.

The court held in effect, that when the nature or magnitude of an enterprise is such as to be of public consequence and affect the community at large, the owner in devoting his property to such enterprise, grants to the public an interest in its use, and must submit to be controlled by the public in regard to charges, and such other matters as the government shall deem to be for the common good.

This decision is one of the most important ever rendered by an American court, not only as the first judicial announce-

ment in the United States of the doctrine that private property employed by its owner in dealings with the public, without making use of any public property or franchise whatever, was subject to governmental regulation as to rates and charges, but also as announcing for the first time the broader principle that when private property is used "in such a manner as to be of public consequence and affect the community at large" it is subject to such regulation. Not only is the doctrine thus announced the basis of the right of government regulation of railways, but it gives judicial sanction to governmental regulation, not only in regard to rates, but in various other ways, of all industries of any public consequence. "That decision," said Associate Justice Field, of the Supreme Court, referring to the case of Munn v. Illinois, in his dissenting opinion in one of the "Granger Cases,"* "will justify the legislature in fixing the price of all articles and the compensation for all services. It sanctions intermeddling with all business and pursuits, leaving the use and enjoyment of property, and the compensation for its use to the discretion of the legislature."

*C., B. & Q. R. R. v. Iowa, 94 U. S., 155.

And thus again we see the police power of the State put forth, in aid of what is held by "strong and preponderant public opinion, to be necessary to the public welfare." The action of the legislatures and the courts in the "Granger Cases" shows that if only "preponderant public opinion" is sufficiently strong and well organized, the general principle, universally recognized, that every man may fix what price he pleases upon his own property or the use of it, will be set at naught, and any form of private property, "when used in a manner to make it of public consequence and affect the community at large" may, under the doctrine of the decision in the case of Munn v. Illinois, be subjected to regulation as to the price which the owner may demand for such property or the use of it.

A MOMENTOUS DECISION.

The decision in the case of Munn against the People of the State of Illinois has been aptly described as "one of the most momentous ever rendered"** by the Supreme Court of the United States. It marked an epoch in the relations of the government to private property and private industry. The doctrine of the decision that "Property does become clothed with a public in-

terest when used in a manner to make it of public consequence and affect the community at large," and thereby becomes subject to governmental regulation as to the price which the owner may demand for such property or the use of it, is of so sweeping a character that, in principle it makes practically every industry and business in the country subject to regulation at the discretion or whim of the legislature. For, as stated by Justice Field in his dissenting opinion, "there is no business or enterprise involving expenditure to any extent which is not of public consequence, and which does not affect the community at large. There is no indutsry or employment, no trade or manufacture and no avocation which does not in a greater or less extent affect the community at large, and in which the public has not an interest in the sense used by the court."*

The full significance of what Justice Field speaks of in his dissenting opinion in a related case as "the novel doctrine announced in Munn v. Illinois, that the legislature has a right to regulate the compensation for the use of all property, and for services in connection with it, the use of

*Munn v. Illinois, *supra.*

which affects the community at large," promulgated in the last above mentioned case for the first time did not appear until it was realized that the doctrine applied to the railway industry. At the same term of the Supreme Court at which the decision in Munn v. Illinois was rendered, there were also decided some six railway cases arising in the states of Illinois, Iowa, Wisconsin and Minnesota and which together with the Munn case are collectively known as the Granger Cases, in which the question as to the right of state legislatures to fix maximum rates for railway services was raised. The court, applying the doctrine above mentioned of the case of Munn v. Illinois, held in each case that the legislature had such right.

RUINOUS RAILWAY REGULATION.

Since the beginning of railway rate regulation the regulative activities of government, state and national, in regard to that industry, have increased greatly, extending to matters of equipment, and management, which greatly increase the cost of operation and maintenance, as well as to a stricter regulation of rates and fares which

greatly reduce the receipts relatively to these items of cost and maintenance.

The consequences of this grinding of the railways between the upper and the nether millstones of the downward regulation of rates on the one hand, and the upward regulation of operative methods on the other, has been the depreciation of railway securities, involving a loss of hundreds of millions of dollars to the holders, and the impairment of railway credit, so that it has been impossible in many cases to obtain new capital for extensions, betterments and needed equipment.

TRUE BASIS OF GOVERNMENTAL RIGHT OF REGULATION.

I am not to be understood as objecting to the imposition of proper restraints upon railways or any other industry or establishment engaged in rendering any service or producing any commodity that is vital to the physical, industrial or commercial life of the community, against any abuse of the privileges enjoyed by such industry or establishment at the sufferance of the community.

The supreme privilege enjoyed by all industries is the right to use the discoveries and inventions which constitute the arts of

civilization, and which enter into every modern industrial process. These arts and inventions are the heritage and the possession of society at large. Nor is this heritage the vague and indefinite thing that is often understood when people speak of our "heritage of civilization." It is a real and substantial proprietary right deducible from moral principles which have found recognition in modern times in the laws of nearly all civilized nations, in relation to inventions. These principles are the right of a discoverer or inventor of any new art or process of manufacture to the exclusive use of his discovery or invention, and the succession of society at large to all the rights of the original discoverers and inventors, either by abandonment, as where the secret of such discovery or invention is, actually or presumptively, made public by the inventor; or by contract, as where a patent is granted to the inventor guaranteeing him the exclusive right to make, use, or sell his invention for a limited time, in consideration of his making public such secret so that the public may exercise the rights so guaranteed to the inventor, after the expiration of the patent.

The State, as the owner, in trust for all members of society, of the right to use such

arts and inventions, possesses the inalienable right to regulate any industry in which they are used for private gain, to the end that **no person may be deprived of the right to enjoy the fruits of civilization at the lowest cost consistent with a just reward to the capital, and a fair remuneration to the labor employed in their production.**

This, then, and not an imaginary grant by the property owner to the public of an interest in the use of his property, when he employs it in certain lines of business "which affects the community at large," is the true basis of the rights of the State in regard to the regulation of private industry. Regulation on this basis should apply to all industries and all establishments alike, when, and only when, they undertake to lay an exorbitant toll upon the public for the fruits of civilization, or otherwise violate that golden rule of private property: "Enjoy your own property in such manner as not to injure that of another." When the occasion arises the fearless and impartial enforcement of this rule is as much the duty of the State as is the enforcement of the rule: "Thou shall not steal."

But while it is true that no one should be denied the right to enjoy the fruits of civilization on the most favorable terms con-

sistent with a just reward to the capital and labor employed in their production, it is equally true that no person nor group, not even the general public, have any moral right to demand any commodity or service in the production or rendering of which capital and labor are employed, except upon terms which admit of a fair return for the use of such capital, and a just remuneration for such labor.

The hostile attitude of government towards industry in general, and in particular towards industries in which large aggregations of capital are employed, manifested, as we have seen, through unequal taxation, and excessive regulation by government, operates not only to deprive the property owner of his property by impairing its value, but operates also to the detriment of the laboring classes and the community at large by retarding or preventing the natural growth of business, thereby lessening the demand for labor which would result from such growth, and preventing the increase in the general prosperity of the community which depends in large measure upon employment of labor.

In a speech delivered by former President Taft at the Indiana University in

Bloomington, Ind., in January, 1915, he said:

"The hostility of legislatures and Congress, consciously or unconsciously, has come to be directed against all successful investments of capital, without descrimination. Nothing is so timid as capital, and nothing is so easily able to take care of what it has. The inquisitorial and nagging character of the powers of commissions, created for the close supervision of corporate activities, have so frightened capital as to shrink investments and stop the normal expansion in the business of the country."

RETROSPECTIVE.

Thus we have seen that although the framers of the Constitution incorporated into that instrument all necessary safeguards and guaranties for the preservation of the rights of property and person of the individual citizen, against the possible encroachments of the government upon those rights which they foresaw, the courts, though devoid of any legitimate legislative power, have, by the process known as judicial legislation, enlarged the powers granted to congress by the Constitution for the regulation of commerce, and created a

new prerogative of state sovereignty to which they have given the name of the Police Power, within the scope of which the Constitution is inoperative. This power, extending in the beginning only to matters affecting the health, safety and morals of the community, was early extended in its scope, to embrace all matters affecting the public convenience or the general welfare; and its scope is continually in process of expansion by the courts, so that the rights of the individual are steadily being contracted. The obvious result of this progressive contraction of individual rights, and expansion of the power of the State is that we are approaching the Socialistic ideal in which the limits to the powers of the State will disappear, and the circle of individual rights which the State is bound to respect, will narrow down to a cipher.

We have also seen that in the exercise of the police power legislatures are controlled in the enactment of laws, and courts in the construction of them, to a great extent by what they believe to be the "preponderant public opinion" on the matters to which such laws relate, without regard to the question whether or not such laws conform to the constitution, the moral law or the rights

of the minority. And we have still further seen that on at least two historical occasions when certain "reforms" or changes in the law, involving the destruction or taking away of certain essential attributes of private property, contrary to the express provisions of the Constitution, were demanded by "preponderant public opinion," such changes were made by legislatures and approved by the courts.

From these facts the conclusion is irresistible that when public sentiment shall have sufficiently developed along the line of the growing tendency of the times to demand a greater and ever greater measure of governmental control over private property and private industry, the things that have happened to the railways and the other regulated industries will be the fate of all industries.

The sentiment is already strongly in favor of applying to manufacturing and mercantile industries the principle of government regulation in regard to prices, not merely to prevent extortion, which is the only valid ground upon which regulation of prices can be justified, but to reduce to a

minimum or utterly abolish the profits of accumulated wealth, as advocated by one section of the community; or to reduce the cost of industrial products to the consumer, as urged by another and more numerous class, without regard to the rights of the capital and labor employed in their production to just remuneration.

THE CAUSE OF, AND THE REMEDY FOR, EXISTING CONDITIONS.

We have seen that the attitude of government towards large accumulations of wealth in general, and towards wealth employed in industrial production in particular, is what it is because it reflects the hostility of predominant public opinion towards the owners of such wealth. This hostility in turn has its origin in the feeling with which the laboring classes and their sympathizers, who constitute a large, well organized and politically powerful section of the population, regard the capitalist class. For they see in the rapidly accumulating wealth of the latter class, representing as they believe, unearned and therefore unjustly appropriated profits of the products of the laborers' toil, the cause of the misery and wretchedness which is the lot of the average wage-earner under the system of wage-capitalism.

It is but natural, therefore, that the labor-

ing classes should use their great voting power to place in the legislatures and the courts persons whose views and feelings conform to their own. It is natural, also, that legislators and judges who owe their election or appointment to the suffrages or the favor of the laboring classes should shape their official conduct, so far as their consciences might permit, with a view of retaining the favor of that class. And it is also a noticable as well as a regrettable fact that in the shaping of their official acts where the favor of persons or classes who control or possess a large voting power is concerned, the consciences of legislators and judges often manifest a remarkable degree of flexibility.

The remedy for these conditions is social justice, and it lies in the power of capitalists themselves to adopt it. If they fail to do this in the near future there is danger that it, or a more drastic remedy may be forced upon them at the hands of government dominated to a greater extent than they have yet seen by hostile public opinion. The day is at hand when the fundamental rights which underlie the mutual relations between capital and labor must be re-defined, and those relations readjusted. If the increasing control of government over private industry,

with its inevitable trend toward Socialism, is to be checked, such readjustment must embody the principles of industrial democracy and an equitable division between capital and labor of the produce of their joint industrial operations based upon the value of what they respectively contribute to such operations.

Under an industrial system embodying these principles the capitalist and the laborer would be partners in a real sense. Their interest would be identical, and legislatures and courts desirous of advancing the interests of the laboring classes as well as their own would do so most effectually when their acts would have the effect of restoring and conserving the rights of private property and private industry. When labor, with its voting power, ceases to be hostile to capital, and becomes instead its partner and ally, then, and not before, the agencies of government will cease to be hostile, and instead will recognize and protect the rights of private property and private industry, and encroachments thereon, whether in the form of unjust taxation or undue governmental control and regulation, will cease.

CHAPTER VIII.

CONCLUSION.

ADVANTAGES SUMMARIZED.

The advantages which, as we have seen in the foregoing chapters, would be likely to flow from the system of Operative Ownership, when fully established, may be summarized under two heads, namely: the transformation of the wage-earning classes from a condition which is often, and not altogether inaptly, designated as wage slavery, to one of industrial independence; and the re-establishment and preservation of the institution of private property in the position which it held through nearly the first century of the American Republic.

Such a transformation would involve the elimination of Socialism as an important social factor; for the establishment of Operative Ownership would bring about all that is practicable and desirable in the aspirations of Socialism, regarded from the view point of the interests of the laboring

classes, of society at large, and in particular of that portion of society which is attached to the institution of private property, and desirous of seeing the social, political and religious aspects of the present order preserved and perpetuated.

The Socialist workingman—the kind of people who form the great bulk of the Socialist party, would have no further use for Socialism, if he, together with his coworkers, were given the opportuinty to become the owners, collectively, of the establishments in which they work, with all the attributes of ownership, including freedom from control or mastery, save by themselves, through foremen or managers of their own choosing, and with the certainty that all the wealth which they created should be their own.

However alluring, in comparison with his condition under the capitalistic regime, the prospect might seem of working for the Socialist State, with certainty of employment, plenty to eat, drink and wear, and all the rest that Socialism promises; the actual possession, as his very own, of the means of producing all these things, or the wealth with which to provide them, would appeal with incomparably greater force to

the Socialist workingman, than all the promises of Socialist propagandists.

Those Socialists, therefore, by whom the abolition of capitalism, with all the evils that flow therefrom, and the emancipation of the laboring classes from the condition to which they habitually refer as "wage-slavery," are so eagerly desired, and who look with confident expectation to the day when the laborer shall receive the whole produce of his labor, will not, I believe, be slow to see the advantages of Operative Ownership as a means of attaining that end, and will devote their energies to aid in the establishment of that system as a means through which their expectations above mentioned may really be attained.

We have seen in an earlier chapter that one-half of all the families of the United States are entirely propertyless, and it is a matter of common knowledge that the poorer families are generally the larger. In the case of a large percentage of the families that possess property, the extent of their possessions is the dwelling house in which they live, which is owned by the head of the family. In the case also of many well-to-do families the property is owned by the head of the family. From these facts, which in the main, are matters of common observa-

tion, though not susceptible of statistical verification, it may safely be estimated that not to exceed one-third of the voting population of the United States are property-owners. The other two-thirds are not therefore directly affected by any abuse of the taxing power, or by interference in or regulation of private industry; nor can they be directly affected to their disadvantage by the extension of governmental activities in any manner whatever. On the contrary they are, speaking generally, the beneficiaries, in various ways, of such activities, many of which are undertaken chiefly for their benefit, and carried out by legislative and administrative bodies in a spirit of extravagance and prodigality for which the design to benefit the laboring class is given as a justification.

PATERNALISM CARRIED TO EXCESS.

The extent to which this spirit of paternalism is carried, and the extravagance to which it has led within the past fifteen or twenty years is reflected in the increasing cost of government, year after year, during the period mentioned. This will be readily seen by any one who will take the trouble to examine his receipt of fifteen or twenty years ago for the taxes on any given

piece of real estate, and compare it with his latest receipt for the taxes on the same property. It will be found in most cases, that, making due allowance for changes in the condition of the property, the taxes have increased between one hundred and two hundred per cent., or more. This means that from twice to three times as much of the rents, issues and profits of private property are appropriated now in the form of taxes, by state and municipal governmental agencies, as was appropriated for the same purposes fifteen or twenty years ago. At the same ratio of increase a very substantial part of the income of property will, after a few years more, be taken each year for the support of the government. That will be equivalent to taking a substantial part of the value of the property; for the measure of the market value of property, is, ordinarily, the net income which it will yield. Thus the policy of paternalism which finds expression in the increasing number and expense of public institutions, is yearly reflected in the diminishing values, from an income producing point of view, of all taxable property.

And this condition is likely to grow worse, as the propertyless voter becomes more conscious of his power and more

thoroughly imbued with socialistic notions in regard to the extension of governmental activities to the providing of all manner of comforts and conveniences at public expense.

For the greater the influence of propertyless voters, the more complaisant will be the government functionaries who have to do with the levying and disbursement of the taxes, in regard to providing such conveniences and benefits in numberless variety. Hence it is that the non-tax-payer may be seen going cheerfully to the polls to vote a tax or a bond issue, to be paid by his tax-paying neighbor, for the erection of some public building—here a town hall to cost a half a million or a million dollars, and there, perhaps a school-house, with a gymnasium, swimming pool, bath-rooms, fraternity and sorority rooms, dance-hall, machinery hall, workshop and many other moderately useful, highly ornamental, but for practical educational purposes, quite unnecessary, appurtenances, at a cost of a quarter or half a million dollars to the tax-payers, when in each case a building of perhaps one-half or one-third of the cost would have sufficed for all practical needs, and would have been the limit of expenditure had the de-

cision of the question been left to those who would have to pay the cost.

PROPERTYLESS CLASS BENEFICIARIES OF PUBLIC EXTRAVAGANCE.

If asked to give his reason for voting so heavy a burden of taxation upon his neighbor, the benefits of which he himself expected to enjoy without paying for, the non-taxpaying voter would probably answer that it would make work for the laboring man; and in the case of the school house, the further answer would be that the poor man's child is entitled to the best that is going as well as the child of the rich man, so long as the public, (which means the tax-paying minority) is able to pay for it. Thus year after year the activities of government are directed to providing comforts and luxuries, in ever creasing measure and variety, for the enjoyment of the many at the expense of the few.

Under a regime of Operative Ownership, whether partial or complete, with the general diffusion of wealth which the ownership in whole or in part by the workers collectively, of the establishments in which they work, would involve, every industrial worker would be a property owner and a tax-payer; the non-tax-paying voters would

be a small minority of the total number of voters, and the tax-paying voter, then as now, would be slow to vote a needless or excessive tax which he must help to pay. Thus the extravagance and prodigality of legislative and administrative bodies would find a speedy and effectual check at the hands of the tax-paying voters, now become strongly predominant, and the burden of taxation would be reduced to the actual necessities of the public business, and distributed among a vastly increased portion of the population, and would thereby be less oppressive to those who should have to bear it.

THE WEALTHY CLASS THE PREY OF DEMAGOGUES.

With the more general diffusion of wealth involved in the system of Operative Ownership would come, as we have seen in an earlier chapter, a more general recognition of the sancity of the rights of property, which quality would be recognized as appertaining not only to the factory of the operative-owned industrial establishment, and to the land and live-stock of the farmer, but also to the bonds and securities of the millionaire—a class of persons now regarded as legitimate prey by every dema-

gogue who, in his eagerness to pander to the antipathy and hatred entertained by a certain section of the working classes towards the rich, is ready to despoil them of their riches, by confiscatory methods of taxation, in the hope of gaining the favor of that section of the working classes above referred to. Thus will the general adoption of Operative Ownership result in ending the abuses of the taxing power, and bring security against such abuses alike to the workman and the millionaire.

It is not, however, through the power of taxation that the most serious danger threatens the rights of private property and private industry, but through governmental regulation, which may be expected to be extended, in increasing measure, to all industries, if present tendencies in that regard are not checked. We have seen the disastrous results which have followed the excessive regulation of the railway industry by state and national governmental agencies, conformably to a hostile public sentiment; and the like result must be expected to follow in any other industry when it is subjected to governmental regulation to the extent that the power to earn a reasonable return on the capital invested, after paying a fair wage to labor, not alone in

years of average prosperity, but in years that fall below the average in that regard, is thereby taken from the owners.

"Our social system," says Mr. Justice Moody of the United States Supreme Court, "rests largely upon the sanctity of private property; and that state or community which seeks to invade it will soon discover the error in the disaster which follows. The slight gain to the consumer which he would obtain from a reduction of the rates charged by public service corporations is as nothing compared with his share in the ruin which would be brought by denying to property its just reward, thus unsettling values and destroying confidence."

It is through such regulation also that manufacturing enterprises have been subjected to the treatment which former President Taft had in mind when he spoke in January, 1915, as already quoted, of the hostility manifested by state legislatures towards large and successful establishments, and of the inquisitorial and nagging character of the powers of commissions having supervision of corporate activities, which have so frightened capital as to shrink investments and stop the normal expansion of business in the country.

UNDUE INTERFERENCE IMPOSSIBLE UNDER OPERATIVE OWNERSHIP.

Such interference of the government in private industry could not happen under a regime of Operative Ownership. It happens now only because legislators and members of congress reflect the hostility to big business which prevails among the laboring and agricultural classes, which are possessed of great voting power, whereas the voting power of the capitalist class is insignificant. If, instead of being owned by a comparatively few capitalists the manufacturing industries of the country were owned by the millions of operatives who work in them; or even if there existed a co-partnership arrangement between the capitalist owners and the operatives, such as has been proposed in an earlier chapter of this book, as the first stage of the proposed process of transition from wage-capitalism to complete Operative Ownership, there would be such an association of capital and voting power as would secure for manufacturing industries the same immunity from governmental interference as the farming industry now enjoys.

LACK OF VOTING POWER THE REAL CRIME OF BIG BUSINESS.

It is the lack of voting power which leaves capital employed in industries other than agricultural and horticultural at the mercy of the demagogues who seem to constitute a majority of the legislative bodies of the country, and who are ready to advance their private interests and ambitions by sacrificing the rights of property of the capitalist class, in pandering to the prejudices of the populace, which prejudices they also help to create. The real crime of "Big Business" is its lack of voting power.

Under the operation of the Sherman Anti-Trust Law and amendments thereto, combinations of capital, which by some possibility may be used to raise the prices of commodities (whether justly or unjustly the law does not seem to regard as material) are forbidden under severe penalties. Similar provisions have been incorporated in the laws of many of the states. Many of these laws contain provisions which expressly exempt from their operation combinations of farmers for the avowed purpose of raising the prices of farm products, and combinations of laborers for the purpose of raising wages. Thus while the farmers or planters may combine to raise

the price of cotton, and the factory operatives may combine to raise the wages of labor, the textile manufacturers into whose product the factors of cotton and labor enter, may not combine to raise the price of their products without incurring the heavy penalties of the law. So, too, farmers may freely combine to fix the price of wheat; and the milling company's employees may combine to fix the rate of their wages for making the wheat into flour; but if the milling companies combine to fix the price of flour they are liable to prosecution for violation of the anti-trust laws.

EQUALITY OF RIGHTS CONTINGENT UPON VOTING POWER.

The lesson afforded by this condition of affairs is so simple and plain that it scarcely needs to be pointed out. If capitalists would secure to themselves that equality of rights which the constitution guarantees, but which the law denies, they must associate themselves with voting power. This they may do by allying themselves with labor in such a way that the laborer will have a direct and substantial interest in the capital, or in the use of the capital, and in the product of the joint operations of capital and labor—such an alliance as would em-

body the principles of joint operation or joint ownership as explained in an earlier chapter of this book.

With the millions of wage earners at present employed in the various industries of the United States transformed into owners of the factories, railways and mines in which they work; or even into partners of the owners, in the manner before described, there would be no more interference with those industries by governmental agencies than there is now with the industry of farming; or than there was in all industries during the first century of the Republic, before society became saturated with socialistic notions in regard to the insignificance of individual rights and the omnipotence of the state.

WEALTH SECURE UNDER OPERATIVE OWNERSHIP.

Thus, under a regime of Operative Ownership would private industry be secure from unreasonable government interference. The laboring classes, no longer the propertyless beneficiaries of the spoliation of the propertied classes, but transformed into property-owners and tax-payers, would guard their newly acquired rights so jealously that the institution of private proper-

ty in every form would find in them its most staunch supporters. Legislatures and courts, which now regard the rights of property so lightly, as compared with the sovereign prerogatives of taxation and the police power, would find it necessary to revise their views in that regard, and to shape their actions to conform to the altered status of the institution of private property in the popular regard; and the agitator and the demagogue, who now find wealth and perferment in exciting the hostility of the propertyless majority against the propertied minority, and in particular against "big business," would find their occupations gone.

CONCLUSION.

If the facts stated and the conclusions drawn therefrom in the foregoing pages are correct—and I believe they can not be successfully disputed—it behooves the capitalist class, if they are as wise and far-seeing as they are reputed—and I believe justly—to be, without waiting either for legislation to compel them to do so, if they wish to remain in business, or for the further development of Socialistic tendencies in legislation, to inaugurate a movement for the general and voluntary adoption of a

system of joint operation and joint ownership of industrial establishments somewhat along the lines suggested in the foregoing chapters. Not only would a true conception of social justice, but their own interests, and the interests of the propertied classes in general, prompt them to that course.

For the Socialistic spirit which, as its advocates hope, will ultimately abolish all private property in productive wealth, is finding expression in increasing measure with each succeeding year in legislation bringing private industry more and more under the control of government, and making capital less profitable and less secure.

The weakness of capital in its relations to government lies, as we have seen, in its lack of voting power. In this regard labor is strong and is capable of supplying to capital, by a union of interests, that strength which the latter lacks, and which it sorely needs.

Time was when capital was able to control, in large measure, the voting power of labor. That time is past. The sceptre of political power has passed from the hands of capital, and will never be restored except by such a union of its interests with those

of labor that an injury to either will be an injury to both.

By according justice and fair play to labor, capital will be enabled to demand and to enforce justice and fair play at the hands of government.

It is the part of wisdom for capital to be content with smaller profits, yielding to labor a larger share of their joint products, and thereby insuring its moral and political support, rather than have those profits cut down through government regulation.

It is better to give labor a voice in the management of industry than to have the management, in large measure, taken over by the State in the form of government regulation. In other words, it is wiser for capital to share with labor the management and the profits of industry than to have the government control the one and cut down the other.

If capital will not take the hand of labor extended in a spirit of friendly and interested co-operation, it will at no distant day be made to feel the hand of government extended in a spirit of unfriendly regulation.

In the due consideration and application of these maxims lies the means for capital

to forestall the disaster with which it is threatened through the socialistic spirit which prevades and influences in increasing measure nearly all classes of society, and which disaster can only be forestalled and averted by a closer alliance with labor on a basis of identity of interests, mutual justice, mutual friendship and mutual loyalty.

INDEX

A Living Wage, 26.
Adams, Brooks, 253.
Bank Deposits, guaranty of, by government, 155, 156, 157.
Belloc, Hilaire, 110.
Big Business, lack of voting power the real crime of, 290.
Board, Joint Operative, need of, 179; how constituted, 179; powers of, 179.
Bonds, power to issue, 144.
Brooks, Professor John Graham, 54.
Capital, only use of, contributed to industrial operations, 170.
Capital, wages of, 76.
Capital and Labor, mutual needs of, 97; strife between, 99.
Capitalism, 10, 11, 12, 19; benevolent, examples of, 133; faults of, 19, 20; transition from, to Operative Ownership, 118.
Capitalist Theory, fundamental error of, 94.
Charter of Labor, Leclaire's, 72.
Civilization, arts of, 270.
Class Struggle, the, 11.
Classes, the war of the, 93.
Classes, working, extreme poverty of, 30.
Collectivism, extraordinary growth of, 60; the same explained, 61.
Commerce, regulation of, by Congress, 230.
Commission, Interstate Commerce, 28.
Commons, Professor John R., 43.
Constitutional Limitations, 139.
Cooley, Justice, 139.
Co-Operation, 46, 66; slow progress of, 77; what it lacks, 79.
Co-Operation, productive, 66, 93.
Copartnership in Industry, 187.
Credit, government, 165.
Courts, not concerned with public opinion, 261.
Davies, Emil, 59.
Declaration of Independence, 50, 65.
Division, Equitable, what would be, between capital and labor, 167.
Drift and Mastery, 192.
Economic Conditions, influence of, in production of crime, 212.

Efficiency, labor, great increase in, under Operative Ownership, 195.
Elevators, storage of grain in, subject to State regulation, 264.
Eliot, Charles W., 84, 85, 87.
Ely, Richard T., 18.
Eminent Domain, 116, 135-139.
Employment, uncertainty of, 34, 206.
Familistere Society of Guise, 73, 102, 133.
Federal Commission on Industrial Relations, 7, 30.
Field, Justice, 265.
Ford, Henry, 211.
Ford Motor Company, 211.
Fourier, M., 74.
Gaskell, P., on condition of the working classes in England, 105.
Godin, Jean-Baptiste Andre, 73.
Gompers, Samuel, description of a living wage by, 25.
Government Aid, 114; examples of, in the United States, 146, 151.
Hegel, on source of individual rights, 49.
How the Other Half Lives, 30.
Hunter, Robert, 30.
Incentives to Efficiency, 196.
Income Taxes, 230.
Indemnity Fund, 144, 145; in scheme of Operative Ownership, 157, 158; government made secure by, 157.
Individual, The, paramount in social relations, 49; tendency to increasing restrictions of rights of, 259.
Individualistic Theory of Society, 49.
Individualism, 49.
Industrial Production, 22.
Industrial Relations, Commission on, 7, 30.
Industries, government-operated, in Europe, 59.
Industry, government regulation of, 238, 239.
Infant Mortality, 33.
Ingersoll, Justice, 236; on the nature of taxes, 227.
Inheritance Taxes, 232.
Ireland Yesterday and Today, 149.
Irish Land Purchase Acts, 146.
Interstate Commerce Commission, 247.
Judicial Construction, enlargement of government powers by, 241.
Judicial Discretion, an uncertain form of tenure, 255.
King John, granting of Magna Charta by, 223.
King William III, 251.
Labor Not a Commodity, 94; copartnership, 67, 68, 102, 197.
Laboring Classes, destiny of, 86; struggles of, 36.

Land Capitalism and Industrial Capitalism, 150.
Land Grants, 152.
Land Purchase Acts, Ireland before and after the passage of, 148.
Leclaire, Edme Jean, 70, 188.
Lippman, Walter, 192.
Living, American Standard of, 24.
London, Jack, 200, 201.
Madison (James), on the commerce clause of the constitution, 240.
Magna Charta, granting of, by King John, 223; the constitution as our, 222, 224.
Manager, General, appointment of, 179.
Managerial Ability, ownership not necessary to, 121.
Manly, Basil M., 33.
Marshall, Chief Justice, on the taxing power, 226; opinion of, in the Dartmouth College case, 252.
Master and Servant, relation of, 12.
Mill, John Stuart, 71, 109, 189.
Mitchell, John, 23.
Montesquieu, on the nature of taxation, 227.
Munn v. Illinois, 264, 265, 266, 267.
Nasmyth, James, 187.
Nearing, Professor Scott, 29.
Operation, joint, distinguished from profit-sharing, 123.
Operatives, as sole owners, 182; as joint owners with non-working capitalists, 181; double incentive of joint owners to become sole owners, 182.
Operatives' Associations, corporate powers of, 175.
Operative Ownership, 91; meaning of the term, 91; benefits of, in general, 186; to the capitalist, 186, 194; to the operatives, 194, 200; to the state, 210; to society, 213; advantages of, summarized, 279; proposed scheme for establishment of, 129; introducing the system, 175; obstacles to its adoption, 110; conservative tendency of, 218.
Organized Labor, 23.
Ownership, Public, part of Socialistic program, 51.
Parliament, British, passage of Irish Land Purchase Act by, 146.
Participation, by labor in management and profits of industry exemplified, 103.
Paternalism, 282.
Police Power, The, defined, 248, 249; declared to be an attribute of sovereignty, 248; a creature of the courts, 250; unknown to the constitution, 250; scope of, constantly expanding through court decisions, 258; permits taking of property without compensation, 250; how it operates, 261; conflicting decisions in relation to, 254; menace of, 249.

Poverty, 30.
Pre-Capitalist Industries, 104.
Principles of Political Economy, The, 189.
Principles of Sociology, 196.
Progressive Taxation, 234; as an instrument of confiscation, 235.
Profit-Sharing, 67, 68; as an incentive to efficiency, 197, 198; as a form of anti-strike insurance, 68, 124; as a weapon against organized labor, 124.
Property, meaning of the term, 220; the rights of, 221; sacred in scheme of Operative Ownership, 129.
Propertyless Classes, influence of, in increasing taxes, 284; beneficiaries of public extravagance, 284.
Public Opinion, the courts influenced by, 258; an unsafe criterion of human rights, 260.
Public Utilities, socialization of, 63.
Railway Construction, rapid development of, 19.
Railway regulation, disastrous results of, 191.
Railway securities, depreciation of, through excessive regulation, 269.
Railway Statistics of the United States, 191.
Regulation of Industry, growing sentiment for further, 275.
Riis, Jacob, 30.
Roosevelt, Theodore, 109; would use government aid to enable tool-users to become tool-owners, 111.
Ryan, Doctor John A., 25, 110.
Scientific Management, 202, 203; opposition of organized labor to, 203; objections to, cannot be urged under Operative Ownership, 204.
Sherman Anti-Trust Act, 242; serious fault of, 244.
Skemp, J. C., on profit-sharing, 125.
Slavery, human, in England, 15; in the United States, 130.
Small, Professor Albion W., 26.
Smith, Adam, 94, 228.
Socialism, 46, 47, 48; present aim of, 52; growth of, 61; not declining, 62; a real menace, 64; elimination of, 279.
Socialism and Individualism, 49.
Socialistic Theory of Society, 49.
Socialist Platform, 53.
Spargo, John, on confiscation by taxation, 236.
Spencer, Herbert, 13.
State, the, paramount in human relations, 49.
Steam Engine, 13.
Strikes, cost of, 39.
Sullivan, J. W., on profit-sharing and labor copartnership, 127.
Sutherland, Hugh, on results of Irish Land Purchase Acts, 148, 149.

Taft, President, on disastrous effects of over-regulation, 272.
Tariff, Protective, 151.
Taxation, 226; progressive, 234.
Taxes, 226, 227; great increase in, 282; burden of, equalized and distributed under Operative Ownership, 285.
Taylor, Frederick Winslow, 203.
Taylor, Sedley, 198, 199, 202.
The Battles of Labor, 39.
The Collectivist State in the Making, 59.
The Manufacturing People of England, 17.
The Principles of Political Economy, 71.
The Principles of Scientific Management, 204.
The Social Unrest, 54.
The Theory of Social Revolutions, 253.
The War of the Classes, 52, 200.
The Wealth of Nations, 228.
Thompson, Slason, 191.
Tools, necessity of, to labor, 100; ownership of, by tool-users, 133.
Trade Agreements, 82; in England, 84; the goal of trade-unionism, 85.
Trade Unionism, 46, 47, 80; achievements of, 80; the true goal of, 85, 90.
Traditions, venerable, violated by the Sherman Act, 245.
Trinity Church Case, 253.
Unemployment, 21; the problem solved, 208; evil of, eliminated under Operative Ownership, 206.
Unemployment Question, the, absence of, among farmers, 207.
Union Pacific Railway, 154.
United Mine-Workers, 55.
Views of Society Changing, 131.
Voting Power, equality of rights contingent on, 291; lack of, the real crime of big business, 291.
Wages, 22-25.
Wage-Capitalism, 11, 12, 16, 129, 131; in America, 17; exorbitant toll of, 42.
Wages, scantiness of, 20.
Walsh, Frank P., 30, 32.
Wealth, Diffusion of, 216; secure under Operative Ownership, 285.
Weeks, John W., 58.
William III, King, charter from, to Trinity Church, 251.
Workers' Ownership of Tools, principle of, adapted to modern conditions, 107.
Wright, Carroll D., 38.

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